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

Hotel Captain Cook – Club Room II
Anchorage, Alaska

September 28, 2016

ATTENDANCE

Committee Present: Rob Johnson
Tom Brice
Bob Williams

Committee Absent: Commissioner Sheldon Fisher

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)

Others Present: Gayle Harbo (ARMB trustee)
Norman West (ARMB trustee)
Bill Jennings, ARMB Investment Advisory Council
Chris Dyer, John Plowright & Wyatt Lee, T. Rowe Price
Marc Pester, Prudential
Angela Winingham & Roberta Rafaloff, MetLife

CALL TO ORDER
Acting Chair TOM BRICE called the meeting to order at 9:10 a.m.

ROLL CALL
Three committee members were present at roll call to form a quorum. Staff reported that Commissioner Fisher was unable to attend.

ELECTION OF COMMITTEE CHAIR
MR. JOHNSON nominated Bob Williams to be chair of the Defined Contribution Plan Committee.

There were no other nominations. Acting Chair BRICE closed nominations and announced that Mr. Williams was the new Chair of the committee by unanimous consent.

MR. WILLIAMS assumed the chair duties.

PUBLIC MEETING NOTICE
MS. HALL confirmed that the requirements for public meeting notice had been met.

APPROVAL OF AGENDA
MR. BRICE moved to approve the agenda. MR. JOHNSON seconded. The agenda was approved.

APPROVAL OF MINUTES – February 17, 2016
MR. JOHNSON moved to approve the minutes of the February 17, 2016 meeting. MR. BRICE seconded.

CHAIR WILLIAMS requested the insertion of a comma, for clarity, following the word "December" in the third paragraph on page 4, as follows: "One hundred ninety-one employees signed up for the "free look," and at the end of December, 44 continued to use the service."

Without objection, the minutes were approved as amended.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES
No one present or on line indicated they wished to speak to the committee.

REPORTS

A. Division of Retirement & Benefits Updates:
KATHY LEA, chief pension officer for the Division of Retirement and Benefits in the Department of Administration, reported that division management had just completed an on-site visit of the recordkeeping services with Empower. They found no issues to report. Empower provided a preview of their next generation products, including new features they are rolling out for the Alaska participants next year. She said Empower could give the committee a presentation of what those new tools look like, if the committee wished. These tools will allow the participants to not only plan for their retirement but also to plan for draw-down.

MS. LEA stated that the biennial employer conference will be held in Juneau October 5-7 for education on IRS law changes, Social Security changes, and instruction on the benefits or the tools in order to work with the plan. A feature at this year's conference is a hands-on demonstration of the new reporting tool that employers will be using after January 2017. DRB will also announce the roll-out of the Deferred Compensation Plan to political subdivisions and

school districts that will occur in July 2017. Empower will be on site with a presentation of why an employer might want to join the state plan.

MS. LEA said that DRB asked for and received a more robust structure in Empower's Anchorage office. Empower has hired an office manager position so there will always be someone in the office while all their field agents are busy in the field. An Empower customer relations director position has been added in Anchorage. This will help DRB partner with Empower to let them better serve as an extension of the plans. This person will also be available to provide reports to the ARMB on the recordkeeping or the educational and financial advice side.

B. Secure Retirement Solutions

Chief investment officer, GARY BADER, had a short slide presentation to compare the defined benefit retirement system with the defined contribution retirement system that was put in place approximately ten years ago. *[The slides are on file at the ARMB office.]* He reviewed the following features of the two types of plans:

Investment horizons: The investment horizons of a defined benefit plan do not change. Typically, defined benefit plans are perpetual plans, so they can plan for the very long term. Ten years ago, the State of Alaska terminated the defined benefit plan for all new public employees. At some time in the distant future, the defined benefit plan will terminate and there will be nobody left in the plan.
When an employee terminates: In a defined benefit plan the employee gets back perhaps their contributions into the system with, in the case of a public plan, a statutory rate on the funds that they invested. The employer's contribution, which in the defined benefit plan winds up generally being the bulk of the assets in the plan, stays with the plan. That is not the case in defined contribution: when an employee terminates, generally they get any vested contributions made by the employer, and they get their own contributions back.
Plan termination: A defined benefit plan can be very costly to terminate because it may not have enough assets to meet the accrued liabilities of the plan. A defined contribution plan is very easy to terminate.
Employer retirement funds: In a defined benefit plan, the employers are interested in having all the benefits accrue to the employee or perhaps their spouse. In a defined contribution plan, if a person were to leave the plan or to die, the assets would go to their heirs.
Inflation risk given to participants: In public defined benefit plans, such as the State of Alaska, there is an inflation provision that is set by statute. In Alaska, there is also a provision that has not been used for several years, which allows the administration or the plan sponsor to provide an inflation protection.
Investment risk: A defined benefit plan allows the burden of retirement security, including investment risk, to be shouldered upon the plan sponsor. A defined contribution plan typically puts that investment risk on the shoulders of the participant.

MR. BADER stated that defined contribution plans are typically thought of in two different ways. One is the accumulation phase, and the Alaska DCR plans have existed for several years. New people entering the system are generally younger and they cannot get their retiree health

benefit until they are 65, so the focus has been on accumulation. There are many investment options available to participants. There are low-cost options in the form of indexes. The default options that T. Rowe Price manages for Alaska are very low-cost target date funds.

MR. BADER said that when employees in a defined contribution plan get ready to retire they enter the decumulation phase. There are obstacles that are particularly associated with the decumulation phase. One is inflation risk, such that their retirement investments will be eaten away by inflation over time. The Alaska Retirement Management Board (ARMB) that is trying to provide security to the retirees wants a good plan and needs to think about how to protect against inflation. There is also investment risk in that employees' assets are not properly allocated among equities, fixed income and so on. Even during the accumulation phase of a defined contribution plan, this investment risk starts to creep in: as people get closer to retirement, of necessity, they play it safer and become a bit more conservative in their investments. They cannot shoot for the same target return that a defined benefit plan would take on their behalf. A big risk is longevity risk – what if they live too long, and how much money can they take out each year? They may not have budgeted for the costs of a prolonged period of ill health. There is interest rate risk. If a person retired right now and had a big allocation to fixed income with interest rates on the 10-year Treasury being around 1.6%, they could not earn a lot with their retirement assets.

MS. HARBO commented that there has been considerable employee turnover in Alaska, with people leaving after five years, when they can take their money and their employers' contributions out. In the last year, over $50 million left the state because those people left. So, there is a risk to the stability of employment for employers. Employers also bear the cost of training those people who leave after five years and then having to train replacement employees.

MR. BRICE mentioned that the assumption is that access to information about the investment options is equal for everyone and that everyone avails themselves of it. So, education and access to information is a key factor in terms of being able to make decisions, which is one aspect of the accumulation phase and an obstacle for some people.

MR. BADER stated that after ten years of the defined contribution plan being in place, a few people are ready to retire. The question is whether the Board is taking the proper measures to make sure alternatives are available to them that will make their retirement what everyone intended it to be when the State adopted retirement plans for public employees. The focus at today's meeting was on mortality risk and investment risk. The intent of the presentations was not for the committee to make a decision today but to start the dialogue about what is available and what action to take. Department of Revenue staff has held conversations with Department of Administration Commissioner Fisher about steps going forward. The commissioner has asked staff to draft some ideas for him about what might be a process, in terms of engaging the Department of Administration and the ARMB on how to make these decisions going forward. Staff expects to come back to this committee and the full Board at some point in the future with a suggestion about what to look at and how to go about making a decision on whether or not to do it. It starts today with presentations about some of the possibilities that could be considered down the road.

ARMB Trustee NORMAN WEST asked what the options were now for a DCR participant reaching retirement.

MR. BADER replied that they can buy an annuity, they can keep the money in the plan and schedule a periodic withdrawal, or they can roll the money into an IRA and manage it with their own advisors.

MR. JOHNSON said he thought the forthcoming information would be helpful in the discussions to take place. He said that having given a presentation, in his previous role as legal counsel to the ARMB, on the legal constraints and obligations of a board such as the ARMB with respect to providing choices, he would like to hear from legal counsel the assurances that the Board has offered enough choices but not too many choices and has taken a reasonable set of steps to provide potential retirees with the type of benefit options they have. He felt it would help the Board in its conclusions to hear that it is within the bounds of the legal prescriptions.

MR. BADER indicated he would ask legal counsel to come back to the committee or the Board with that information.

MS. HARBO referred to slide 3 and clarified that COLA is actually the 10% additional on the base salary for retirees who continue to reside in the state. The PRPA (post-retirement pension adjustment) is the computed increase based on the Anchorage CPI that is calculated every July.

MR. BADER responded that, in the industry, COLA is the cost of living. In Alaska, the term COLA means the 10% supplement that a retiree gets for staying in the state, so it is an Alaska cost of living allowance.

MR. BOUCHER said that in the defined contribution plan design there is no differentiation for where a person lives.

CHAIR WILLIAMS asked how the health benefits work for the two retirees in the Alaska defined contribution plan that Ms. Lea mentioned earlier.

MS. LEA explained that both DCR retirees are Medicare age, which is a requirement for getting DCR retiree health benefits. They applied for the medical coverage and were found to be eligible. Regarding the disbursement of their accounts, it is not truly a retirement event, it is a disbursement event. The Division of Retirement & Benefits has been running a campaign for about four months called “Stay in the Plan.” It provides reasons to participants to leave their money in the plan, if they can. These two retirees needed the money for their income so they withdrew everything. Partial withdrawals are allowed, limited to two withdrawals per year. Retirees can also take a periodic payment, which can be monthly, quarterly, semi-annually or annually. They can also elect an amount of withdrawal they want for as long as the account balance lasts, or they can elect a length of time that they want benefit payments. Another option is to elect a basic annuity, which has been an option in the retirement plans since 1980. A retiree can also buy an annuity with a portion of their account and do something else with the rest.

CHAIR WILLIAMS remarked that he would like to hear if anyone has a strong case for how a defined contribution plan works out in a really happy way for people. He lost a very good teacher in his department because he was unable to make a mathematical case for them to stay. It made more sense for the person to cash out and go to a defined benefit plan in another state. It seems to him that when there was a defined benefit plan in Alaska there was an incentive to stay in Alaska for at least eight years to get vested. Then there was a big incentive to stay 20 years because a Tier I teacher could get a retirement, and for a Tier II teacher it was 25 years. Now there is no penalty if someone leaves early, and after five years they can cash out the whole account. So, if there is a strong case for how a defined contribution plan works out, he was interested in hearing it.

MR. BADER introduced the first presenter, T. Rowe Price.

1. **T. Rowe Price**

[A copy of the T. Rowe Price slide presentation is on file at the ARMB office.]
CHRIS DYER introduced JOHN PLOWWRIGHT of Client Services, and Co-Portfolio Manager of the T. Rowe Price Retirement Date Funds and Solutions, WYATT LEE, who has been integrally involved in the asset allocation teams in developing retirement income-oriented solutions. MR. DYER said they intended to focus on the topic of retirement income in general and also present a couple of retirement income product ideas that T. Rowe Price has been working on for several years.

MR. LEE stated that 18 months ago T. Rowe Price hired a national consultant to do a survey of consultants, plan sponsors, and individuals to understand what they were thinking about their retirement income phase.

An individual has two phases to retirement investing: the accumulation and decumulation stages. Most people have the same goal for the accumulation phase – to retire with as much money as they possibly can, based on how much they have saved. In the defined contribution world, there are a lot of ways to go about the accumulation process. Decumulation is much harder because the goals are as diverse as people are.

In the DCR world, there are not that many off-ramps right now. These tend to be in two groups: insurance-based solutions based on primarily annuities or GMWB products (guaranteed minimum withdrawal benefit), and uninsured products that are generally managed-payout type investment strategies. Ultimately, there are trade-offs between these two buckets. Broadly, the insured-type products tend to be less liquid, less portable, have relatively higher costs, and be more complex to the individual. They do provide guaranteed lifetime payments and payments that are stable over time. On the uninsured side, these products are going to be more liquid, more portable, generally lower costs, and relatively more simple. The payments are potentially more variable and relatively period-dependent.

MR. LEE said that most plan sponsors are talking about these products, but T. Rowe Price is not seeing a ton of uptake right now. One of the issues, in terms of the trade-offs listed above, is that

sponsors want to check the box to every single one of them, and it is a very hard thing to get everything to work. Many plan sponsors are wrestling right now with more basic issues, from a plan design standpoint, that the State of Alaska has already solved. In terms of priorities, about half the large plans are focused primarily on lower costs, and in the mid-market more plans are focused on increasing contributions and increasing participation. As a result, providing a retirement income solution is relatively lower on their priority lists. Because of the plan design, Alaska's consideration right now is a bit more progressive in thinking about next generation problems. Because the broad market is wrestling with other issues, T. Rowe Price sees the adoption timeline pushed out. The provider market has not fully adapted to the retirement income marketplace yet, and so Alaska is ahead of the market.

MR. LEE said that, in their survey, T. Rowe Price heard four key barriers to adoption of retirement income for plan sponsors. Two big issues were the high costs and the lack of portability of products, mostly issues with insurance-based products. A broader-based issue in the marketplace is liability: plan sponsors are waiting for some sort of safe-harbor liability protection for defaulting participants into a retirement income solution, similar to the Department of Labor's QDIA regulations for auto-enrollment, or something similar on the selection side with what the DOL put out several years ago in the annuity selection space. However, one of the key issues, especially around the annuity guidance, is the regulations were not entirely clear. Many sponsors have been hesitant to take the steps because there was not clarity around what true safe-harbor protection ultimately meant.

The biggest hurdle to plan sponsors adopting retirement income solutions, though, is the participant experience. Because so many plan sponsors right now are thinking about retirement income but not implementing, many recordkeepers are consciously not ready to support retirement income solutions. From an investment perspective, they have not been willing to get their recordkeeping systems in order or get the participant communication structure set up in front of the demand that ultimately is coming. Plan sponsors have enough trouble talking to participants about what they have to do to accumulate savings for retirement. If decumulation is a more complicated plan, plan sponsors have to make sure that recordkeepers, who are the primary conduit for participant communication, are ready with tools and materials, in order to equip participants to understand and make the right decision about what they should be doing in retirement.

MR. BADER asked if stable value used to be a safe harbor.

MR. LEE replied that he did not think it was a legal safe harbor, but it was assumed to be a safe harbor investment from a plan sponsor who would look at putting their investor in a portfolio that is not going to lose money and thus they should be protected. Many plan sponsors did not think that was the right long-term decision but were unwilling to put their participants in a short-term, riskier asset for long-term benefit without some fiduciary cover.

MS. LEA informed the committee that the state's recordkeeper is set up to do something like a guaranteed income product, whether it is the option the recordkeeper offers or an out-of-plan option.

MR. LEE remarked that that capability puts Alaska's plan in a much better position than much of the marketplace right now.

MR. LEE next described two retirement income solutions that T. Rowe Price has been working on over the last several years. The solutions are at different ends of the spectrum, in terms of potential solutions, and each involves trade-offs with each other.

The Managed Retirement Drawdown Strategy provides secure income over a defined time horizon, with the opportunity to increase those payouts for general cost-of-living increases. MR. LEE said he would describe it as a liquid annuity replacement. It is a non-insurance product that, at purchase, would deliver a guaranteed income floor that can be defined upfront. It is going to give step-ups in income over time. When a person invests in the portfolio, T. Rowe Price would be able to quote an annual payout rate. Currently, that rate would be about 3.5%, and that income would be provided without using insurance. T. Rowe Price would harvest gains from another part of the portfolio over time, reinvest it in the secure portfolio, and that would create income step-ups over time. They expect over time to keep up with long-term cost-of-living increases. They would not give a year-over-year increase or keep up with CPI perfectly, but they would be able to catch up over a long period of time. The Managed Retirement Drawdown Strategy portfolio is designed to be fully decumulating over the defined time horizon of 30 years. At year 30, the final payout would be the remainder of the assets within the portfolio over time.

MR. LEE said the Managed Retirement Drawdown Strategy is highly flexible. T. Rowe Price has designed a baseline strategy that they think would be appropriate to take to the broad market. They can accommodate a number of alternative investment designs, including the time horizon, the underlying investments of the portfolio, and the way they structure it, to come up with a strategy that is most appropriate for the end objectives.

MR. PLOWRIGHT said that "guaranteed" is probably the incorrect word: it is an assured payout because the income is generated by U.S. Treasuries, so it is a very low risk, very stable floor, but he would not say guaranteed.

CHAIR WILLIAMS said it sounded like one of the differences between guaranteed and assured is if something faltered with U.S. Treasuries.

MR. LEE went through the mechanics of how the Managed Retirement Drawdown Strategy would provide the secure income component *(slides 9 and 10)*. The secure payment of 3.5% would be generated by a structured portfolio of U.S. Treasuries with varying maturities up to 30 years, with each bondholding constructing a rung in what they call the bond ladder. Every year the retiree would get a payout from this bond ladder that is a combination of maturing principal of the bonds that are being held, as well as the coupon that is coming off those securities. In year one of the investment, they would expect the payout to be roughly 50-50 between the maturing principal of short-term bonds and the coupon interest from the full ladder of U.S. Treasury securities. Moving further into the 30-year horizon, increasingly more of the payout comes from maturing principal of the underlying bonds.

MR. LEE stated that, at any point in time, T. Rowe Price would be able to construct this ladder for a defined horizon, and they would know with very good certainty what the payout rate of that portfolio would be. That is what gives the “secure income floor.” It is an area where they have flexibility to put together a portfolio to balance ultimate needs. If they wanted as guaranteed secure as possible, they could invest fully in a portfolio of U.S. Treasuries. They could, however, invest a portion of the bond ladder in relatively high-quality corporate securities that they would hold to maturity. There would be more risk in the portfolio of not getting the full payment if one of those bonds defaulted. The trade-off would be to potentially increase the payout.

MR. LEE said that, at the start, the secure income portfolio of structured Treasuries would represent about 80% of the total investment. The other 20% would be invested in an equity portfolio and would allow T. Rowe Price to give those income step-ups over the long time horizons. Over time, there is a glide path between the investment in the bond ladder portfolio and the equity component. As they rebalance out of the equity portfolio and into the bond ladder portfolio, it will allow them to buy more units of the bond ladder, which is one way they can increase the payment over time. They can also increase the payment by asymmetrically balancing: when the equity markets do relatively well, they will trim that equity exposure back to where they would be on the glide path and reinvest those gains in the bond ladder. That, in turn, means holding relatively more of the bond ladder, which is going to increase the payout over time. In an adverse market event when equities do not do well in a certain year, T. Rowe Price will not rebalance, and there will be a stable payout between two years. They will wait until the equity markets do better, or until the glide path rolls down until they get back to the point where they can give step-ups over time.

MR. LEE stated that following this process over time means T. Rowe Price believes they can provide a stable floor with cost-of-living increases that are not perfectly tied to inflation. They believe this is ultimately a more robust strategy because few people live exactly on a CPI inflation print month over month, year over year. Because they can leverage the fact that it takes a while for individuals to adjust to cost-of-living, they can give a solution that does better with higher payouts over time, while sacrificing some of that precision versus inflation overall.

MR. JOHNSON had a question about the amount of the step-up, remarking that it appeared that the rebalancing achieved greater security of the base piece plus future entitlements.

MR. LEE replied that T. Rowe Price cannot guarantee exactly what the pattern of step-ups would look like. There could be increases that are well in excess of inflation, if equity markets do tremendously well. He added that greater security of the base piece is a great way to think about it. They will look at what the proportion invested is between the secure income portfolio and the step-up portfolio, and whenever they are over they will take gains to be able to try to give that step-up and lock in the ability to increase that income whenever they can.

MR. WEST asked how T. Rowe Price envisioned this product being offered.

MR. LEE said it could be offered in a number of different ways. T. Rowe Price could link a portfolio like this to a target date investment. So instead of de-risking in a target date glide path into a fixed income portfolio, a person could de-risk into a strategy like this so that when they hit retirement it would automatically start paying out over time. It could also be set up as a stand-alone portfolio, which would be another dated portfolio because it would have a defined time horizon, in which an investor could opt into at retirement.

MR. WEST inquired about the management fees for the Managed Retirement Drawdown Strategy.

MR. LEE said that T. Rowe Price has not priced it out. Because it would leverage some of the equity trusts that already exist in the Alaska plan, and the costs to actually build a Treasury bond ladder are relatively low, the fees would be in the ballpark of the investment management fees that Alaska is currently paying on the existing options.

MR. PLOWWRIGHT added that if they did go for a separate trust that had smaller assets, there are trust-specific accounting costs that could push the management fees up a bit. But from an investment point of view, there should not be a major fee impact to what the Alaska plan is experiencing now.

CHAIR WILLAIMS mentioned that earlier T. Rowe Price had stated that some retirement income strategies have high costs.

MR. LEE explained that because the Managed Retirement Drawdown Strategy is very straightforward, liquid, tradeable securities, it can be constructed in a very low-cost manner.

MR. DYER added that it is a low-cost, low-volatility balanced fund that is primarily Treasuries with a little bit of an equity piece to it.

CHAIR WILLIAMS asked what the estimate of the guaranteed floor would be for a retiree with $300,000 to invest.

MR. LEE replied that if T. Rowe Price were to construct a bond ladder based on the yields in the Treasury market right now, if would produce a yield in the mid 4% range. Because they would be holding about 80% of the money in the bond ladder, that would get to roughly a 3.5% yield. At current rates, the initial payout would be 3.5% of whatever the initial investment was.

MS. HARBO remarked that a retiree would need to invest almost a million dollars to get $40,000 a year in income.

MR. LEE agreed, adding that that issue is a retirement income issue across the entire marketplace. When talking about trade-offs, the Managed Retirement Drawdown Strategy falls on the more conservative end, with a relatively lower payout because of the secure floor.

MR. BRICE asked if there would be a minimum balance for a participant to buy in with, and if that was something the State of Alaska could establish.

MR. LEE said it could. T. Rowe Price would probably need several million to get the portfolio constructed, to build the bond ladder and have it appropriately diversified across the entire security structure that they need.

MR. PLOWWRIGHT added that finding that critical mass of assets is an issue when T. Rowe Price rolls out new retirement date funds as well.

CHAIR WILLIAMS asked if this retirement income product would have to be Alaska specific or if there were other retirement plans in other places that could be combined.

MR. PLOWWRIGHT replied that to date they have been thinking of it as specific to Alaska but, theoretically, it could be offered as a T. Rowe Price mutual fund.

DR. JENNINGS said this product could be characterized as a different philosophy than what is embedded in the target date funds. He asked what kind of payout the target date funds were designed around, given their higher risk.

MR. LEE stated that the initial thinking was that the retirement funds would be the potential for something like a 4% rule. He suggested that he shift gears and address that question by presenting the next strategy.

Still addressing the Managed Retirement Drawdown Strategy, DR. JENNINGS asked if 30 years was the right number, because it seemed too short to him.

MR. LEE replied that it is one of the trade-offs. Thirty years is about as long as T. Rowe Price can build it, because there are no longer Treasuries than that. There is a relative longevity risk issue with that. It is something they have explored to potentially solve in a range of difference ways. They have thought about coupling this with a deferred annuity on the back end. That would raise costs. That would create some more counterparty risk within the portfolio, but it is something they could tie in. They have also thought about coupling the retirement income portfolio with an emergency fund. Instead of holding 100% in this portfolio, maybe buy 95% in this portfolio and put 5% in another investment within the total structure that never gets touched. That portfolio over a 30-year time horizon grows so that when the bond ladder fully depletes, you have the leftover in this emergency fund from which to draw.

MR. LEE moved on to explain the Endowment Spending Strategy. The idea is for T. Rowe Price to use a balanced fund and, over time, harvest the total return of the balanced fund in order to provide income. This would allow T. Rowe Price to target a 5% payout rate on this portfolio, but it would be relatively less secure in that there would be some variability to the payout rate over time. Every year they would declare a fund level distribution (dividend) of 5%. Thinking about the way a balanced fund is structured, if they believe that over the long term that fund will perform better than 5%, they can pay out that total return over time and then continue to maintain

the principal over the long term. In years where the balanced fund does better than 5%, the portfolio balance would grow. In years where the return was less than 5%, they would eat a bit more into principal. The 5% payout would be a combination of return of initial investment and investment gains on the underlying securities, as well as income that the securities would generate.

MR. LEE said that by just putting that 5% rate on whatever assets are held, there could be a lot of variability in the payout. Instead, T. Rowe Price looks at the average balance of assets over the previous five years, which gives a smoothing mechanism that allows them, when markets do really well, to underpay a little bit, and when markets do poorly, they overpay a little bit. That provides a more consistent income stream and prevents them from dipping significantly into principal over time.

MR. LEE presented an illustration of the Endowment Spending Strategy using the historic performance of the Alaska Balanced Fund, which is a portfolio of 35% equities and 65% fixed income (*slide 15*). He noted that even during the market downturn in 2001-2002 and the market crash in 2008-2009, that smoothing factor reduces the impact of the market downturns on the payout of the portfolio. That means a higher payout rate over time. It is a relatively more aggressively postured portfolio, from an investment risk/return profile, than is the bond ladder strategy previously discussed. But it allows T. Rowe Price to pay that out potentially in perpetuity.

MR. LEE presented a similar illustration of the Endowment Spending Strategy using the historic performance of the Alaska Long-Term Balanced Fund, which has 60% in equities and 40% in fixed income. Because of the extra growth from the higher allocation to equities, the ongoing payouts here are slightly higher, but there is also more variability in those payouts because of the added volatility from the equity portfolio. This strategy could be added to virtually any balanced fund, and even on top of one of the target date portfolios. He would not recommend putting it on top of something as conservative as the Alaska Balanced Fund. Given where bond yields are right now, it will be harder to hit the 5% long-term target payout rate. Layering this strategy on top of the 2020 target date portfolio, it would start paying out 5% of its assets over time. Because it has a long-term glide path that gets more conservative and thus less likely to hit that 5% target, there would be a bit more decumulation late in life. From a retirement portfolio perspective, paying out some of the principal over time to support retirement is a rational strategy.

MR. BOUCHER asked if plan participants would buy into the Endowment Spending Strategy at the point of retirement.

MR. LEE said it could be a stand-alone portfolio, or even a stand-alone portfolio that mirrors the investments of one of the existing portfolios. Then, at retirement, the discussion could be something along the lines of, you are comfortable investing in the Balanced Fund or the 2020 target date portfolio, do you want to stay in that portfolio? Yes. Do you want to stay in a portfolio where you potentially manage the income out of it, or do you want to be in a portfolio that automatically pays out income over time? It also could just be layered into one of the

existing strategies. One choice could be to set up one of the target date funds such that after the participant reaches their retirement date, the fund automatically starts paying out over time.

An unidentified person asked if this was a one-time choice or if a participant could move back and forth.

MR. LEE responded that because the portfolios are fully liquid and traditional balanced funds, a participant could trade in and out of them, just as they can in any of the underlying portfolios. Nothing is an irrevocable choice.

MS. LEA asked if the Endowment Spending Strategy would be automatically built into the target fund default.

MR. LEE said it would be a choice. MR. PLOWRIGHT added that it would be an easy and reasonable way to proceed.

MS. LEA asked what would happen if the State were to see participants in multiple target date funds, which is what they see now.

MR. LEE said it gets back to the participant engagement model. For these products to work very well, there have to be gates set up on the recordkeeping system that would prevent participants from being in multiple target date funds or from being in a portfolio that is inappropriate for their circumstances.

MR. BRICE commented that he appreciated that the Division of Retirement & Benefits did robust education on investment options available to plan participants. When he talks to his members, however, for some of whom English is their second language and who have low education, he would argue that they do not grasp many of the concepts.

MS. LEA said she agreed one hundred percent, which is why a retirement income solution that relies on heavy education is of concern to her. She based this on the extensive education efforts that are currently provided not being very successful.

2. Prudential

[A slide presentation entitled “Prudential IncomeFlex Target” is on file at the ARMB office.]

MARC PESTER said he led the retirement income practice at Prudential. He said the attraction of defined benefit plans is real to the point where many in the industry, when working on retirement income solutions, are trying to replicate that same type of an approach. It is how to pool longevity and how to pool investment risk so that each participant is going to have a secure retirement.

MR. PESTER started by describing the key risks facing Alaska defined contribution plan participants. Pre-2006, people were thinking about how to get participants in the plan and solve for participation risk, and the contribution risk, or how to optimize people’s savings. Also, how to make sure, from an investment perspective, that the State provided the right investment

options for participants, based on their time horizons and risk tolerance. What evolves is people drawing near to retirement who only have the benefit of the DCR plan, and you have these emerging risks. The purpose of the DCR plans is to source retirement income: participants do not even have Social Security benefits. That is when three risks emerge: market risk (protecting savings from volatile cycles); conversion risk (getting participants to think about their account value as an income stream, and to create that income stream without losing flexibility and control); and longevity risk (outliving retirement income).

MR. PESTER stated that what DCR participants have available to them now is systematic withdrawals from their account, which has no income guarantee but provides them with complete flexibility and control, and access to their funds at any time. Today, Alaska participants have the ability to do an out-of-plan fixed annuity. It will do a great job on protecting for longevity risk and market risk, but the trade-off is that it is an irrevocable election, and the participant cannot access their money. The more popular option of the different types of income solutions is the Guaranteed Minimum Withdrawal Benefits. It is what Empower and Prudential and many others in the insurance space have put out there. It is somewhat of a hybrid approach, where participants are going to take systematic withdrawals of their own money. It is not until and unless the account value goes to zero because of a market event or longevity that the participant then gets the benefit of a lifetime income stream.

MR. PESTER commented that Alaska has been a leader in shifting to defined contribution plans and, with its continued focus around retirement security, very robust defined contribution benefits. Prudential was first around these institutional Guaranteed Minimum Withdrawal Benefits with its IncomeFlex. Over 7,000 plans have adopted it, and 5,000 of the 7,000 are in the government space.

MR. PESTER explained that with the target date funds or even managed accounts available to Alaska participants today, they have a challenge where initially they have time on their side. The target date funds are exposed to the equity markets early on, but, as they migrate toward retirement, they take risk off the table by moving from more risky equities into fixed income. As they get to about 10 years prior to retirement, that is where this sequence of return risk really steps in. At that point, Prudential would activate the income guarantee and start tracking the participant's highest market values. This could happen between ages 55 and 65. Prudential would not go ahead and reduce the risky asset exposure. Because of the presence of the income guarantee, they are going to stay invested in maybe 60% risky assets during that whole time up until death.

MR. PESTER said that not only will IncomeFlex Target have a traditional market value for any type of investment option available in the plan, Prudential has a second notional value that it tracks called the income base. The income base is the highest market value at a participant's birthday from perhaps age 55 through 65. Off of that, Prudential will allow the participant to withdraw 5% for life. The participant can always take out 100% or as much as they want at any point, but if they want to get the lifetime annual withdrawal amount, they have to keep it going. If the market value goes up, Prudential will give that higher market value times 5% as the new lifetime annual withdrawal amount.

MR. PESTER went through two illustrations as examples *(slides 8, 9, 10 & 11)*. He was clear that when Prudential activates the income guarantee and is tracking the highest birthday value until death, the participant is paying the 100-basis-point fee.

MR. WEST asked how the fee would work if a participant decided to go into the IncomeFlex Target strategy at the month they are going to retire.

MR. PESTER said they could do that and would not have to pay the fee. For example, at age 65 they go in with $100,000 and start receiving $5,000 a year. When Prudential calibrates the fee, it is whatever the asset management fee is for the T. Rowe Price fund plus 100 basis points. That is the expense ratio on the fund. From that point on, the 60/40 portfolio, say, would have a 100-basis-point fee plus perhaps 25 basis points. The fee is different than a fee for service. Prudential is taking the present value of the 100 basis points times zero and they go into the capital markets and buy a long-dated put.

CHAIR WILLIAMS remarked that the previous presenter's strategy was constrained to 30 years. He assumed Prudential's strategy had no time constraint on it.

MR. PESTER replied that there are trade-offs on each strategy. One of the positives of Prudential's IncomeFlex Target strategy is the 60% equity exposure, while the previous presenter's strategy had a 20% equity exposure, which is going to lead, hopefully, to better outcomes in general. Instead of 3.5% guaranteed, the lifetime income guarantee is 5%. And it does not have a 30-year constraint. Given where interest rates are, the T. Rowe Price strategy is a difficult strategy to go more than 30 years and still get a 3.5% income. The Prudential strategy has other issues. One is that it is an insurance guarantee. Prudential insulates that in a separate account. They will not allow the participant to take any risk around the market value.

MR. PESTER said the bottom line is Prudential's strategy introduces complexity. The one complexity he believes they do a good job on is the participant experience. The illustrations he described earlier are complicated, and the plan participants would never understand "how the watch is made." Prudential would never try to teach them that. At this meeting, it is important for the committee to understand what they are doing behind the scenes. What they say to a participant is, here is your lifetime annual withdrawal, and here is what this account value translates into in terms of an income stream. Prudential uses terms that participants understand, and in all their research, participants understand and fully appreciate budgets. That is what much of the success of the participant experience is all about.

MR. BOUCHER remarked that Prudential's was an irrevocable type choice though.

MR. PESTER said not at all. That is a big difference between this strategy and other types of more traditional annuities, or even longevity insurance. He said that Prudential had married this strategy with T. Rowe Price's target date funds, and that is one way to do it. It could be a separate stand-alone 60/40 balanced fund. Whatever it is, the participant goes into it, and at any point in time they can pull out the market value of their account. If they take out 100% of the

market value, they lose their whole lifetime annual withdrawal amount. If they decide to take half the market value, they will reduce their lifetime annual withdrawal amount by 50%. Even during the accumulation phase from ages 55 to 65, a participant can take money out. It is 100% liquid. When Prudential introduced this product in 2006, they said the best thing is more traditional annuities. They did all kinds of behavioral research, and participants said "no way," they were not interested in making an irrevocable election to an insurance company. Prudential had to come up with a solution where participants could have their cake and eat it too – they have flexibility and control but, at the same time, they have a lifetime income stream. It is not the most efficient insurance product, and it is not the most preferred by Prudential as an insurance company. It does not matter, because there would be no take-up on more traditional annuities.

MR. PESTER said there is a great new solution that Prudential has been monitoring called longevity insurance. It basically says that at age 65 a person will take 15% of their portfolio and it will not pay off until and unless they reach age 85. If it pays off, it is a nice and very efficient product. If a person can make their money last from age 65 to 85, then longevity insurance kicks in. They can take 85% of their portfolio and do what T. Rowe Price described. So why isn't Prudential in the market with the product today? Prudential's view is that they will be in the market with any product that they believe will get take-up. The issue is that participants, in their heads, say they will not put away 15% of their assets and lose it all if they do not live to age 85. They want access to the whole thing in case they have a change of health or some other need. One other problem is that the Supreme Court held that you cannot bias male versus female. So, for this longevity insurance to really work well, you would want a gender bias, because women live longer than men and would benefit from the annuity table. The IRS and the Department of Law (DOL) have said they want to encourage income solutions generally. The real problem is a technical one of minimum required distribution: what does a person do at age 70-1/2 when they do not have access to the money in a longevity insurance product? So, the IRS and DOL fixed that with a qualified longevity annuity contract, which basically says it is okay if a person only puts $125,000 in and they are not taking a minimum required distribution.

MR. PESTER said there are trade-offs on all the solutions, but most important, Prudential believes the plan sponsor needs to have something that the participants are going to value and appreciate. That is the reason Prudential has gone the route of guaranteed minimum withdrawal. In the corporate space, there is huge push-back on guaranteed income solutions generally because the DOL said it was going to encourage these types of solutions and then said it was going to provide guidance. The latter had a chilling effect, because no one was going to move forward until they saw the guidance. Last year, the DOL reinforced that the safe harbor that is available to distribution annuities would be available for these types of solutions. So, it both addressed the QDIA issue, as well as the fiduciary safe harbor issue. It remains to be seen if it changes the corporate landscape a little bit, but clearly the governments base has been a leader in this. But for most governments that already have defined benefit plans that have a source of retirement income, it is not as important. The corporate sector has gravitated more to this type of solution.

MR. PESTER stated that he had covered the quantitative benefits, but there is a qualitative benefit as well. Prudential researched its 7,000 plans and found that participants who have the

income guarantee have 38% higher contribution deferral rates than those who did not have the benefit of the income guarantee. He thought that once the participants see the guarantee at age 65, and the replacement income, they tend to understand what they need. From an investment standpoint, Prudential saw that participants who had the benefit of the income guarantee were 2-1/2 times more likely to stay the course than those who did not have the income guarantee. On spending behavior, participants have to be conservative and use a 3.5% or 4.0% withdrawal strategy if they are using a T. Rowe Price-like solution or doing systematic withdrawals themselves. On the other hand, guaranteed income participants can do a more aggressive 5.0% guaranteed withdrawal. The savings behavior, the investing behavior and the spending behavior all tend to lead to better outcomes.

MR. PESTER said that if Alaska's communication was simply to offer Prudential IncomeFlex as another option in the target date funds, the take-up would probably be 2% to 3% at best. The challenge for the plan sponsor is how to create the right presumptions for participants. Does the plan sponsor want to create a presumption in favor of this, or does the sponsor want to force participants to opt out of it? At the end of the day, a presumption is made that either participants need a secure retirement product or they don't need it. The question is what presumptions should be set to get better outcomes for participants. At the same time that there is no substitute for better education and communication, everyone understands the challenges with some participants.

MR. BADER asked for comment on whether Prudential requires to be the recordkeeper or works with other recordkeepers.

MR. PESTER replied that the challenge with these types of solutions is that it doesn't just have a market value concept; it is a second notional value. If Prudential is integrating with a third-party recordkeeper, they have to communicate on a daily basis so they can calculate the income base daily. Of Prudential's 7,000 plans, 5,000 are with third-party recordkeepers, and they have a plan with Empower. Prudential does not at all require to be the recordkeeper.

Responding to CHAIR WILLIAMS about the participant savings rate being 38% higher with this guaranteed income solution, MR. PESTER said he would send the committee the research on Prudential's plans. He added that he thought the result would be similar with a T. Rowe Price solution or Empower's secure foundation product, if participants were shown what their income would be. It gives participants a point of reference for their replacement income, which seems to resonate more with them than just being told their account value is a million dollars and they are set.

3. MetLife

ANGELA WININGHAM, Market Director for Institutional Income Annuities, and ROBERTA RAFALOFF, Vice President responsible for Institutional Income Annuities, appeared before the committee to talk about MetLife's retirement income solutions. *[A copy of MetLife's slide presentation is on file at the ARMB office.]*

MS. WININGHAM briefly reviewed a list of Alaska's key goals and considerations for a defined contribution retirement plan, as MetLife understood them.

MS. RAFALOFF stated that MetLife has over 75 public sector government plan relationships. On top of that, they work with 152 school districts across the United States. She added that almost a year ago MetLife was awarded to be the exclusive annuity provider for the Indiana Public Retirement System. That plan has an annuity as a distribution option. MetLife's flagship customer is the Federal Thrift Savings Plan (the federal government's defined contribution plan). MetLife has been the exclusive annuity provider for that plan since its inception in 1987. She mentioned that a couple of their customers also use Empower as their recordkeeper, and MetLife can work with any recordkeeper.

MS. RAFALOFF said that MetLife has been providing income annuities to defined contribution plans for over 40 years. They have a lot of experience and examples of when these products and services are successful and sometimes when they are not as successful. MetLife has been the leading institutional income annuity provider and was the first insurer to issue a group annuity contract in 1921. Metropolitan Insurance Company, which is the company that would back any guarantees that MetLife would make to plan participants, has issued over 12,000 group annuity contracts to date. They guarantee income benefits to over a million people every year. They have the skills and operational capabilities to handle these types of programs.

MS. RAFALOFF next talked about employee engagement and how MetLife can work with Alaska to make sure that its participants understand what they are going to face in retirement, what retirement income is, and how they are going to use their defined contribution plan to make sure that there is a guaranteed stream of income that lasts at least as long as they do in retirement. MetLife's core foundation is based on simplicity. Any retirement income solution that is offered should be simple for the plan sponsor to implement and work with the recordkeeper, and simple for the plan participants to understand. MetLife does not believe that most people understand what an annuity is and what retirement income is, so they start simple. A simple income annuity guarantees receiving an income stream every month for the rest of their life.

MR. BRICE said he assumed, given the diversity of plans that MetLife works with, that they have a lot of experience working cross-cultural with ESL (English as a second language) issues and that type of thing.

MS. RAFALOFF said yes, that when they build their communication platform they recognize that people learn in a multitude of ways. They work with the plan sponsor to go multiple media so that participants have the flexibility to learn the way they want to learn.

MR. BRICE said he represented a large group of probably lower educated members with English as a second language, who are completely disinterested with the whole concept of retirement income. When thinking about educating them and rolling out these plans, there has to be some game plan to really engage them in a meaningful way.

MS. RAFALOFF commented that, when it comes to defined contribution plans, MetLife sees that if they do not capture somebody right up front, they will shut down, which leads to inertia. They want to be sure that they are talking to everybody at the appropriate level. She offered to send a link to MetLife's retirement income center so committee members can go through it. She thought it was on a very basic level, while also not offending a finance person who goes to the website for information. They have user testing on all of their sites.

MS. WININGHAM mentioned Florida, where the federal government does other customized mailings, depending on the group they are targeting, and MetLife helps with the content of the message.

MS. RAFALOFF added that the State of Florida sends a letter to all the retiring participants every month, and they include a customized quote to give them an idea of what an income stream can look like if they choose the annuity. MetLife helped them develop that. They are happy to work with Alaska to figure out the right way to communicate with a group and make sure they capture everybody.

MS. RAFALOFF addressed MetLife's competitive pricing, saying that Alaska plan participants would get the benefit of institutional pricing. Lower fees mean the participants will generate a higher income amount than if they bought retail income annuities. Besides that, income annuities provide the most economically efficient way to generate guaranteed income in retirement. Participants buy an income annuity with some of their retirement assets, and they leave the rest of their assets in the plan, where the plan sponsor has already negotiated really low fees. There is a one-time fee for this type of product that is usually 1.5%-2.0% of the purchase amount. For products like accumulation annuities, that 1.5%-2.0% fee is charged against the participant's balance every single year.

MS. WININGHAM explained MetLife's income focused strategy. The question at the participant level is whether they need income now or need income later. Income now would be the immediate annuity, which at MetLife is their Guaranteed Income Program. Income later is the deferred annuity. MetLife's deferred annuity is a qualified longevity annuity contract (QLAC), called Retirement Income Insurance. MetLife is the only insurance carrier to offer this product specifically designed for the institutional market.

MS. WININGHAM stated that the MetLife Guaranteed Income Program is a way for a participant to get lifetime income in retirement without making periodic withdrawals from their assets and worrying about eventually running out of money. Purchasing an annuity with part of their assets also frees up other assets to do what they need.

Regarding MetLife's deferred annuity, MS. WININGHAM said that in 2014 the U.S. Treasury issued final regulations on QLACs. It essentially allows for the deferral of income to age 85 or sooner. Deferred annuities are not new. MetLife was one of the first carriers to issue a deferred annuity in the market, but they found that it was almost unusable because of required minimum distributions. Starting at age 70-1/2 years, people had to start taking distributions. MetLife has spent a lot of time working with Washington, which strongly supports the idea of longevity

insurance and the risk it addresses. The QLAC regulations allow for additional deferral on taxes and reduce the amount of the defined contribution plan balance that is subject to the required minimum distribution rules.

MS. WININGHAM said that under the regulations on deferred annuities, in order to qualify as a QLAC, there are certain limits. The QLAC requirements limit the purchase to the lesser of 25% of a plan participant's account balance or $125,000. If a person has $500,000 and they use the maximum of $125,000 to purchase a QLAC, then the amount that is subject to the required minimum distribution rules is $375,000. The $125,000 purchases an annuity that they can defer income to a later date, and taxes would begin once that income starts. The deferred income can start on or before age 85. One of the key features of QLAC is it can be accelerated. If a person purchased a QLAC at age 65, and they want to wait until age 85 to receive income, but if a poor investment market impacts the other assets they are using to fill in the gap, or they have health issues or elder care needs, they may find themselves needing the annuity income sooner. All the person has to do is call and MetLife will recalculate the benefit, and the person can start receiving income. They still get the power of that deferral and the higher income by purchasing the QLAC.

MR. BADER asked if the participant would get a quote from MetLife if they decided to retire tomorrow and they wanted to begin receiving income at age 75.

MS. WININGHAM said a participant could go to the website or call the call center and get a quote from an income specialist. She added that there are individual options a person can add to a QLAC, such as a pre-commencement death benefit, to make it personal for that individual.

MR. BADER observed that if he retired at age 65 he would have to withdraw at least 5% of his account balances and pay federal income tax on it for the next 20 years, whereas if it was in the QLAC he could go 20 years without paying taxes on the distributions.

MS. WININGHAM said the taxes do not come out all at one time but are paid as the participant receives monthly income.

DR. JENNINGS asked if the $125,000 maximum to purchase a QLAC was indexed, or would the regulations have to be adjusted for the maximum to increase.

MS. RAFALOFF replied that the regulations state that they can adjust the maximum in the future.

Regarding the immediate annuities, DR. JENNINGS mentioned that the federal government's Thrift Savings Plan offers both a growing annuity for inflation protection and a flat annuity. He asked if that existed in the QLAC world.

MS. RAFALOFF responded that there is an inflation-protection rider that a person can add to the QLAC products, both the immediate annuity or the deferred annuity.

MS. WININGHAM stated that another feature of the QLAC is that it has to be a fixed annuity: it cannot be variable. In summary, a deferred annuity provides the participant with a longer deferral period, it reduces the required minimum distribution, and it really protects against the longevity risk. In addition to a participant deciding whether they need income at the time of retirement or later, they can also choose whether the annuity is single-life for themselves or joint and survivor to include their spouse. Other available features of the income-later annuity are the pre-commencement return of premium guarantee, the cash refund if the amount the participant paid for the annuity exceeds the dollar amount of income payments received, and inflation protection.

MS. RAFALOFF reported that the insurance industry, working with Washington, is trying to make these products flexible for people to address the biggest concerns that people have with income annuities. The biggest concern is giving an insurance company $100,000 today and getting hit by the proverbial bus tomorrow, where the insurance company wins and the purchaser loses. That is not what these products are meant to do. They really are meant to provide plan participants with guaranteed income in retirement.

MS. WININGHAM drew attention to an illustration of a person retiring at age 65 and using $125,000 of his account balance to buy a MetLife Retirement Income Insurance annuity and leaving $375,000 in his account to grow to do with what he wishes *(slide 17).* At age 85, he will begin receiving $4,858 a month that he cannot outlive. He is also recouping his initial investment within three years, once income payments begin.

DR. JENNINGS asked if the pricing would be linear, if he bought an annuity smaller than $125,000.

MS. RAFALOFF replied that it is linear, for the most part. The only slight difference would be in the expense load because MetLife has a flat fee and then a percentage.

Treasury Division Director PAM LEARY asked if the fees for the add-on features to a MetLife guaranteed income annuity were one-time costs or part of a stream of fees.

MS. WININGHAM said they are one-time costs. These are all single-premium purchases, so that would be factored into what the net income would be. MS. RAFALOFF added that it is not a cost like an expense. MetLife simply changes the income benefit because what they expect to pay out is going to be different.

MR. BADER posed the hypothetical if a person were to retire today and be quoted an immediate annuity, and the amount is 3.5%. He asked if the QLAC would have a higher payment because of the advantage they are getting by being in a longevity pool.

MS. RAFALOFF said that was exactly right: the deferral period exponentially grows the income benefit. Referring to the illustration Ms. Winingham presented a few minutes ago, if the 65-year-old person retired today and bought income to begin immediately, he would receive around $750 a month.

DR. JENNINGS asked if the menu of options could be chosen by the organization sponsoring it; for example, everyone could be opted in to the return of premium guarantee option, etc.

MS. RAFALOFF said yes. MetLife has found that when it comes to benefit options, however, people like the flexibility to customize the product to fit their particular situation.

MS. WININGHAM briefly referred to a list of additional value-added services that retirees might want to access: will preparation services, identity theft protection, and a prescription drug discount program.

MS. WININGHAM confirmed for MR. BRICE that the MetLife guaranteed income annuities do not have ongoing management fees. Their one-time fees are to administer the plan, for tax reporting, to operate the call center, etc.

MR. BRICE asked how much the one-time fees would be, recognizing that it depends on the size of the annuity.

MS. RAFALOFF estimated that it was between 1.5% and 2.0%. She added that just this week MetLife's call center for the income annuity area was awarded the J.D. Power award for excellence in customer service.

In closing, MS. WININGHAM asked if there was anything the committee wanted her to follow up with.

CHAIR WILLIAMS said he was interested in a brief summary of why MetLife got the Washington State contract or why they have so many school district clients. He noted that MetLife has quite a few institutional clients.

MS. RAFALOFF responded that MetLife has experience in offering income annuities to defined contribution participants in the public and the private sector. The federal Thrift Savings Plan (TSP) is a huge contract for MetLife, and it is well-known and well-regarded in the industry. Greg Long, who is the executive director of the TSP, is a huge proponent of retirement income solutions and spends a lot of time talking about annuities. He speaks to lots of plans, such as Alaska, to get them to offer these types of solutions to their participants. That really takes MetLife a long way.

MS. WININGHAM offered to provide references, such as the states of Indiana and Florida, to speak to about the thought processes behind why they selected MetLife.

MR. BADER reminded everyone that, while there are two retirees in the defined contribution plan today, there are thousands of people in Alaska's other defined contribution type plans who are retiring daily. He recently heard about a person who got some statements and was surprised to learn that they have been in the Supplemental Benefit Plan for a number of years and had $800,000 worth of investments that they did not know about. The committee has to hold a candle

to its feet and move as quickly as possible and deal responsibly with seeing what, if any, of the options the committee can encourage being adopted in the Alaska plans.

4. **Committee Discussion/Steps Forward**

MR. BADER stated that staff needs to have more discussion with Department of Administration Commissioner Fisher. There is sort of a gray area, in terms of the statutes, about what is plan administrator and what is ARMB, and how to work together. He intended, by the December board meeting, to have talked with Commissioner Fisher and all have agreement on the responsible way to move forward and make decisions on these products. That is why staff did not have an action memo for the committee today.

MS. LEA said she came away from the presentations with a couple of information items that the department needs to provide to the committee. One is the age breakdown of the current defined benefit plan members so the committee has an idea of how long the members are living. For example, there are 12 members who are over age 100. The committee should also see the SBS balances by $100,000 increments for the career employees over 20 years.

MS. LEA said there are two different solution options on the table. One is for the defined benefit plan member who has the core DB retirement benefit plus an SBS account. The other group is the defined contribution plan participant who has no guaranteed income. She thought those required two different solutions.

CHAIR WILLIAMS said he would like to see the SBS balance data as the median, the upper quartile, the minimum and maximum, and perhaps even a bar graph that shows where most people are falling. That would be for both defined benefit and defined contribution plans.

MR. JOHNSON commented that the income solutions were being proposed as additional choices to the current menu of investment options. He sought confirmation that the income solutions were not being considered as default options for a plan participant who did not make an investment choice.

MR. BADER indicated they were not.

MR. JOHNSON said, in that case, the education project will be to have participants make an affirmative determination that some of these income solution plans are a good idea.

MR. BADER stated that, if a request for proposal was issued, he had no doubt there would be responses from other companies that offer QLACs besides MetLife. He added that the way the State got into trouble the last time it had an annuity plan was by putting out bids seeking AAA companies with the highest crediting rate they would give for guaranteed investment contracts. That produced the riskiest company with the highest rate, and then it was Executive Life. Those who did not get Executive Life got Mutual Benefit Life that went under, too. He said that cannot be the way to go about making these selections. The committee has to ask if there is any tension between giving advice and making products available – those are the things that Ms. Lea, Mr.

Boucher, Ms. Hall, Mr. Carson and he met with Commissioner Fisher to talk about. Staff hopes to have a path for the ARMB to take by the December meeting.

CHAIR WILLIAMS said that, if the defined contribution plan continues, there has to be a way for the plan participants to get to an income in retirement.

MR. BADER said the reality is that all new employees are in a defined contribution plan. The administration, staff and the ARMB have to do what is best in the existing environment.

MS. LEA stated that the Division of Retirement & Benefits wants people to see the demonstration of the new generation of planning tools that Empower has because it brings that monthly benefit to the participant's notice the minute they log in, and not just the account accumulation. It also has planning levers that participants can use to extend the time they plan on working and immediately see the difference in the monthly benefit. For the Deferred Compensation Plan, it will show how much more the participant wants to contribute and how that changes the monthly benefit. Part of the focus at the employer conference is to get the employers to understand that they need to partner with DRB to allow the division to educate their employees. That is the biggest stumbling block right now. DRB is hoping that with those changes, and with the structural changes that Empower has made in the Anchorage office, that it will be pushing the education more successfully over the next few years.

DR. JENNINGS said he found the QLAC a compelling option. Features like being able to defer required minimum distribution make something that is already attractive even more attractive. Some of the academic research on the guaranteed products is not particularly positive. But he thought there was a difference between the retail version of the guaranteed products and what the committee was hearing about. A lot of the little catches on the retail side did not seem to be present here. On T. Rowe Price's presentation, it would be a fundamental philosophical shift if the State were to start to embed some of those strategies into the target date funds. He characterized the target date funds in Alaska's overall structure with T. Rowe Price as very leading edge and a bit more aggressive than the norm. To him, the description of moving to something that was meaningfully more conservative at age 65 would be sort of moving back toward where everyone else is. That would be giving up some of the good stuff that the Alaska plans have accomplished with second or third generation target date funds.

MR. BADER commented that staff considered today to be a brainstorming session, without advocating for any particular strategy or product.

OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

MR. BRICE inquired about the status of the exit questionnaires for folks who were leaving the defined contribution plans to find out what they were doing with their disbursements.

MS. LEA said the division is still doing the questionnaires. At one point, the committee had stated that it wanted to see the results of the questionnaire more like once a year. The questions have been expanded and should be going out with a newer survey next week. When people say they are rolling over because there are more perks, the division wants to know what those perks

are. If they are rolling over because the plan does not have the options they want, the division is asking what options they are looking for.

MR. BRICE asked about the group of people that is taking cash disbursements and the division does not know what is happening with those disbursements.

MS. LEA replied that Empower is still working on constructing some way to figure out what those people are actually doing. The total lump sum disbursements are not the norm. The majority seem to be elections to receive a partial disbursement each year. It is early days yet, but Empower is looking at the effects of the "Stay in the Plan" campaign, which has been in effect for about four months. In the same four-month period last year, there were 30 full disbursements. For the same period this year, there were only three full disbursements. It is too early to draw any meaning from the data yet.

PUBLIC/COMMITTEE MEMBER COMMENTS
There were no comments.

ADJOURNMENT
The meeting adjourned at 12:18 p.m., on a motion made by Mr. Brice and seconded by Mr. Johnson.

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