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

Anchorage Marriott Hotel – Prudhoe Bay Room
820 West 7th Avenue
Anchorage, Alaska

December 7, 2016

ATTENDANCE

Committee Present: Bob Williams, *Chair*
Rob Johnson
Tom Brice

Committee Absent: Commissioner Sheldon Fisher

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

Department of Administration Staff Present:
Ryan Colgan (deputy commissioner)
Kevin Worley (chief financial officer, Retirement & Benefits Division)
Kathy Lea (chief pension officer, Retirement & Benefits Division)

Others Present: Gayle Harbo (ARMB trustee)
John Borne, Empower Retirement
Liz Davidsen, Empower Retirement

CALL TO ORDER
CHAIR BOB WILLIAMS called the meeting to order at 1:30 p.m.

ROLL CALL
A quorum of three committee members was present at roll call.

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

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

approved.

APPROVAL OF MINUTES – September 28, 2016

MR. BRICE moved to approve the minutes of the September 28, 2016 meeting. MR. JOHNSON seconded. The motion passed without objection.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

No member of the public indicated they wished to speak to the committee. MR. BRICE stated that the labor union he represents has been working with Empower Retirement. A number of times, Jasmine Williams has provided outstanding service to the members at the Anchorage School District and the State of Alaska. He expressed his appreciation for that response and service.

EMPOWER UPDATE:

KATHY LEA, chief pension officer for the Division of Retirement and Benefits in the Department of Administration, said the Alaska Retirement Management Board (ARMB) and the committees have had some concern over conflicts of interest with regard to financial advice and financial education services. She reported that the federal Department of Labor has finalized rules regarding conflict of interest that will go into effect April 1, 2017. The rules essentially make an advisor a plan fiduciary. The result is that the advisor cannot then compensate its employees in any way for steering plan participants to any particular investment that might benefit the company that is providing the advice. The advisor must deal in the best interest of the participants and not in their own interest. Empower's representatives are already not compensated based on commission. If committee members have questions on how Empower applies the new DOL rule, they will be applying it to the State of Alaska plans, as well as other plans for which they provide recordkeeping, financial advice and education.

1. **Introduction of Anchorage Office Director**

[The Empower retirement slide presentation is on file at the ARMB office]

LIZ DAVIDSEN, the new state director for Empower Retirement in Anchorage, introduced the West Region Vice President, JOHN BORNE. She said she would be attending board meetings and Defined Contribution Committee meetings to be a resource for what Empower knows about the industry and what is happening. She has been with Empower for about 15 years, and was most recently in client service management. She has worked with the State of Alaska plans in that capacity for roughly the last eight years. In her new role, she will be partnering with Kathy Lea and her team at the Division of Retirement & Benefits, as well as partnering with Mr. Borne, to make sure Empower is delivering the participants what they need (help them replace for life the income they made while working). Alaska has different types of participants toward whom it needs to focus communications. Empower's job is to speak with the participants and drive that action so they are saving, so they understand what they need in retirement and how to get there, so they can see if they are on track, and so they choose the appropriate strategies for the wealth accumulation, as well as the distribution in retirement.

MR. BORNE mentioned that Empower has 80,000 Alaskans in four plans. He said the new Department of Law investment advice fiduciary rule is a game-changer in the industry. It started on the ERISA side, and typically that type of regulation trickles over to the governmental plan side eventually. Empower made the decision to follow the fiduciary guidelines and standards and let it serve as the best practices model. Empower is going to offer its clients two models. One is an education approach, and the second is fiduciary advice. Since Empower does not really work with the plan investment line-up, they would not be considered a fiduciary in terms of the investments that are offered. What the DOL expanded on was that if a participant is meeting with a "Jasmine" or someone in the call center and asking for advice particular to their own situation, then Empower would become a fiduciary for that advice. That entails acting in the best interest of the participant. If they roll an outside 401(k), which is covered by ERISA, into the State's 457 plan, that is a fiduciary movement. Empower will be telling a participant their retirement date as a fiduciary decision, how much to save as a fiduciary decision, and also the investment advice is a fiduciary decision. Empower will cascade that among all the different services they offer.

MR. BORNE stated that Empower will move to a retirement plan advice model beginning April 1. Their retirement plan counselors have all passed the series 65 license requirements and will become retirement plan advisors. Empower will be offering financial planning through the reps, so they have a certified financial planner. He came to Anchorage during national "Save For Retirement" week and was able to meet with several people who are approaching retirement. Empower is going to expand those services so the reps can use a software tool called NaviPlan that is able to look at a participant's outside investments and help them do estate planning, education savings, etc.

Chief investment officer GARY BADER commented that the assumption is that selling Empower's products is a profit center for the firm, and now they are going away from giving advice to sign up for one product or another, or to stay in the plan – advice that might profit the firm. He asked if that would manifest itself in a request to change the recordkeeping contract with the State of Alaska to recover costs that might not have been anticipated when the firm bid for the contract.

MR. BORNE responded that Empower has a five-year contract based on the price assumptions that they have today. Any different assumptions would potentially change the pricing. However, the pricing they offer today is good for five years, assuming the plan structures that exist today. Any changes there would be subject to negotiation.

MR. BADER remarked that it was a wonderful decision on the part of the firm to follow the Department of Labor's advice, but it was not required in Alaska's case. It gives him a great deal more comfort that things are the way they should be.

MR. BORNE stated that Empower thinks that most government plan sponsors will ask for this service, particularly plans the size of Alaska's. Empower wanted to get out in front and be responsive. Even though Alaska's plans are not under ERISA rules, they will operate just like ERISA. He noted that advising a participant to stay in the plan will become fiduciary advice as well, and they will be able to stand by that recommendation and have to uphold that to the highest standards, as any fiduciary would have to do.

2. **Next Generation Planning Tools – Roll-out in January**

MR. BORNE explained how most defined contribution plan participants simply want to know if they will have enough money to retire, and are not interested in learning the investment terminology of asset allocation, standard deviation, and diversification. Empower believes they have a breakthrough in technology where they started with what they wanted the end user experience to be and then worked backward to the technology. Previous retirement calculators required the user to input information, and people were not using them. Empower started with a simplified experience. It is a financial planner and, second, it is a health and wellness advisor. Third, it is a socially oriented tool so the user can find out what everybody else is doing.

MR. BORNE showed an example of what the current Empower web site looks like *(slide 12)*. He said the average participant spends just 18 seconds looking at their current balance, the rate of return, and their last contribution amount. Most people will log off after that. That is the extent of retirement planning that happens throughout most of their career. They do not really engage with planning tools until late in the game. At that point, the tools are going to tell them to work longer.

Empower is changing the experience to something that everybody can understand. They came up with a tool called the retirement income control panel *(slide 16)*. Four percent of people or less use a traditional retirement calculator. With this approach, Empower raised the usage to 35% of people already on the web who would make the one click to see what they are going to get in retirement. They wanted everybody to get a retirement income projection, so they reformulated the approach and removed a lot of the unnecessary menu options that clutter up most websites. Apple has been at the forefront of helping Empower design the website, in terms of user-ability and in terms of white space. Not only are things simplified, but a sophisticated modeling engine that is promoting all the projections makes it the best tool in the industry. The more complicated a tool is, the less likely a person will come back and use it again. Empower wanted this to be an interactive part of their lifestyle so they can easily see how they are doing.

MR. BORNE conducted a live demonstration of how the retirement income control panel works. He pointed out the "goal" circle, and said Empower defaults everybody in the plan to needing to replace 75% of their salary in retirement. It is what most financial planners recommend, however, a participant can change the goal number to whatever they want. The planner shows a participant if there is a gap in reaching their retirement income goal and also provides the best next step on how to fix the gap. Studies have shown that the best solution to change the outcome is to increase the contribution rate. In the case of a PERS Tier IV participant, who cannot change their contribution rate, they would be able to enroll in the 457 plan with one click. They could also increase their contribution age from 65 to 66 to help close the income gap even more. The calculator defaults the expected rate of return to 6%. This tool knows exactly what the participant is invested in, based on their asset allocations. When the person logs in, the tool does 50 billion different market scenarios based on Monte Carlo analysis. The output showing what a person will have in retirement is provided with 80-90% confidence.

CHAIR WILLIAMS stated that Tier III teachers, Tier IV state employees, and municipal employees are in systems that do not contribute to Social Security. He noted that Empower's web page shows an expected Social Security income in retirement. He asked if the retirement income planning tool was personalized for Alaska to exclude Social Security.

MR. BORNE replied that Empower would default Social Security off at the plan level. If a participant were eligible for Social Security and wanted to include it themselves proactively, that can be done.

MR. BRICE asked if the State's Deferred Compensation Plan assets would be included under Other Assets.

MR. BORNE said the "My Savings" button would include the three different account types: Supplemental Benefit System, Deferred Compensation Plan (457), and the 40(a). He added that the 457 plan would be the only one that a participant could change their contribution on. There would be an opportunity for the people in a Roth IRA to change their contribution, as well.

Regarding other assets, MR. BORNE explained that there will be an account aggregation tool that can include the updated balance of a participant's account at any other institution.

MR. BADER asked if the 75% retirement income number was the income at the date of retirement.

MR. BORNE explained that Empower assumes a person will get pay raises along the way and retire at a certain salary level (about 3% annual increase). The 75% retirement income number is in today's dollars.

MR. BRICE remarked that the 3% annual pay increase assumption is an ongoing discussion at the ARMB level and State level, and is probably higher than what is actually going on.

MR. BORNE said Empower can build in different inflation rate assumptions.

MR. BORNE stated that the United States spends twice as much as any other industrialized country on healthcare spending as a percentage of GDP. Empower thought it was important to include those healthcare assumptions, particularly since seniors over 75 have been filing for bankruptcy at a rate that has increased by 400% since 2000. Many of them were unaware of how much healthcare was going to cost in retirement. He explained that Empower has uncovered that there are about six specific health states that will have a dramatic impact on both your expenses in retirement and your mortality assumptions. People using traditional planning tools tend to categorize their health state as "average," and that can underestimate their healthcare costs in retirement. Empower lets a participant personalize based on the six health states, such as type II diabetes, cancer, smoker, high cholesterol, and cardiovascular disease.

MR. BORNE touched on the social forum tool where participants can see how they are doing compared to their peers. He pointed out that the web page has the action step right next to a particular recommendation step, so people do not have to reverse to a prior page to find an action step, for example.

MR. BORNE drew attention to the plan sponsor side, noting that everyone's individual lifetime income score is going to roll up into the plan to create one score for the whole plan. It can be broken down among the different demographics to show how to improve the retirement planning tool. One way Empower is going to do that is by using meta data (when different groups of data start to tell a story, and they can form theories and conclusions on how they get to that output and also how to change that output).

CHAIR WILLIAMS asked if Empower could look at the data for TRS Tier III and PERS Tier IV participants now.

MR. BORNE explained that Empower has not moved the state plans onto this platform yet, but it should be done by the end of summer.

DEPUTY COMMISSIONER COLGAN asked if Empower envisioned some prepackaged reporting options.

MR. BORNE said absolutely. There are standard reports, but if there are specific reports that Alaska wants, they can schedule them to run automatically. If the plan sponsor wants to see investment data broken down by investment type, managed accounts, do-it-yourself, or target date, they have that data available as well. They can show, based on a Morningstar glide path recommendation for the plan, who is investing outside of those equity allocations. Empower can then target and monitor that employee population. The data can be broken down by salary range or tenure, or any number of other subset categories.

MR. COLGAN asked if there was a way to track if an intervention step for retirement readiness that was focused on a subset population was successful.

MR. BORNE stated that Empower can track almost everything. They just did a "Stay In the Plan" campaign with the Division of Retirement & Benefits, and they can track exactly who clicked on the campaign and the amount of asset retention the plan experienced after that campaign.

MR. COLGAN asked if Empower could track at a CRN or individual level to gain insight into the involvement and interactions.

MR. BORNE said he thought that was part of the next steps, but he would have to get back to the committee on that. They have been testing in Wisconsin a tool that tracks if a participant clicked on a presentation or went to a seminar, and then measures if they increased their contribution or changed their allocation afterwards. Empower can then report back which seminars were effective and which ones were not.

MR. COLGAN inquired if Empower had any benchmarks or goals around what the profile ought to look like.

MR. BORNE responded that Empower's number one goal is to get the plan's score as close to 100% as possible for participants on track to replacing 75% of their income in retirement. They would set goals every year, based on the plan's lifetime.

CHAIR WILLIAMS told about attending a retirement fair last month, where he went to a presentation for defined contribution plan participants. There were about 30 people there: Tier III teachers, firefighters, and state employees. He asked how many of them had logged into the Empower web site, and not a single person had. He saw that as a big gap there. He also related how someone could not get into the Empower web site after repeated tries, and asked if most people get in fairly easily.

MR. BORNE stated that Empower has a quarterly report that records the number of unique web users. Their experience with government is that about 14% of the plan population goes to the web. The dashboard can be personalized to the things that are most important for the plan sponsor.

MR. BORNE stressed that the three most important things that a participant can do are the contribution rate, investment time, and investments. If the participant does not want to do the investments themselves, they can select the Help Me Do It menu, or they can choose to enroll in Managed Accounts. The web page is designed to put less focus on the account balance when a participant logs in and instead draws attention to their income score. So, while the stock market may have gone down, but they see that their income score stays the same, they are less likely to panic and sell their investments.

CHAIR WILLIAMS said he was interested in seeing a scenario for a Tier III teacher (defined contribution plan employee), who wants to retire at age 60 with 37 years of teaching, and who is not eligible for Social Security benefits. This person contacted him, very down because she had called an investment contact who said her income at retirement would be around $18,000 a year. He wondered if that $18,000 was in today's dollars and would be worth even less at retirement age. This person has interpreted the defined contribution piece as basically a vow of poverty that is unsustainable, and she will have to do something else. While a person can also have IRAs and deferred compensation savings, he wondered what the strategy would be. A lot of people assume that things are kind of bad, and if they do look into their retirement income, their first response can be anger. Getting more information does not necessarily make things better. He said that so far with defined contribution he has not seen how it works out for someone. It works out for someone who only wants to be in Alaska for a short time as a training ground because they can take their money with them. But what is the pathway for people who want to stay in Alaska and actually have this plan be a replacement income in retirement?

MS. LEA stated that in July 2017 the State would be opening the state's deferred compensation plan to all the participating employers. That will provide teachers with a lower-cost investment option because they will be able to take advantage of the group rates and lower fees, and more of what they invest will be theirs in the future. She added that by using Empower's retirement income control panel a teacher will be able to put in the information for their other investments and see a clearer picture of everything they have and what their replacement income will be. She thought that was the biggest advantage for teachers to use the web page. In providing counseling, the division finds that many teachers have little pots of money from prior school districts or other savings, so they do not have a good idea of what the whole picture looks like.

MS. HARBO mentioned a conversation with someone in the Fairbanks School District about two or three years ago, who had told her that many of the younger teachers are not taking advantage of the 403(b) savings option. They are not saving, period, and that is scary. She thought the option for teachers to start saving in the State's deferred compensation plan starting July 2017 was a good idea.

MR. BRICE stated that the bottom line is to create that awareness early in a person's employment about what they have to do to get from point A to point B. Then people will be able to talk about the bigger and broader societal issues that Empower has brought up in real personal terms and get educated. He, personally, found the retirement planning tools fascinating.

MR. BORNE agreed, saying these conversations are tough to have. However, if a person who is 38 has this conversation today, a 1% or 2% increase in contributions makes a huge difference by retirement age. If a person is planning to do this when they are 60, they could put $1,000 more in and still not make the difference they are looking for.

MR. BRICE said he thought access by other employers to the State's deferred compensation plan was going to happen on January 1.

MS. LEA said it is delayed because of the State payroll system conversion being behind.

MR. BRICE stated that in talking with municipal employers he sensed a lot of pent-up demand for that access.

MS. LEA said that part of the agreement with employers, when the 457 plan (deferred compensation) is rolled out, is that they will allow their employees to attend seminars on the 457 plan. The division will be including 401(a) information as well, because they will be talking about how the two work together. Right now, the division is not getting the cooperation from the employers to have their new TRS Tier III and PERS Tier IV participants go to the introductory seminar. The experience has been that employees in those plans think they have the worst plan ever, until they go to a seminar. Once they see what they really have, they are much more satisfied with the retirement plan, and they know about the tools they can use.

MR. BRICE remarked that he speaks from the perspective of the members he represents, and the Tier IV folks. There are real educational gaps, and what Empower demonstrated is a wonderful tool to help bridge that gap. In some cases, there are language barriers and cultural barriers, and for many people the subject is very intimidating. Many of the members he represents do not deal with computers. How to reach the least financially savvy folks is an issue that needs continued work.

MS. LEA stated that the division can tailor presentations to any group, and any group can request a presentation.

MS. DAVIDSEN commented that Empower is partnering with Ms. Lea and her team to make presentations. They are doing territories in her office that match the State's territories so they can partner. They have been talking about target communication because there are various groups of people to communicate to. Some people want to go to the web site, and some people want to talk one-on-one with a counselor.

MR. BADER asked if there was any plan to include one of the web pages with a participant's quarterly statement to let them see what percentage they are toward replacement income in retirement.

MR. BORNE stated that Empower is defaulting the plan to e-delivery, so a participant will get an email saying their statement is ready. In order to get their statement, a participant will have to go onto the web where they will see their retirement income projection first thing.

MR. BADER asked what the income projection on the statement is based upon.

MR. BORNE said it is based upon a 20-year annuity product at age 67, but, once the web page moves to the new experience, all that changes.

MR. BORNE stated that of the people who have experienced the tool, 35% have increased their deferral rate by an average of 18%, so it is making a positive impact. On the healthcare cost estimator, the average age of the person who has accessed it is 47. After experiencing that, they have gone from an 8.2% average deferral to a 10.06% average deferral.

MR. BORNE next spoke about Empower's Dynamic QDIA, which they are launching in January 2017. Qualified Default Investment Alternatives (QDIA) were passed with the Pension Protection Act in 2006. That act also paved the way for auto-enroll. That led to the creation of target date funds, risk-based funds and managed accounts. It is getting to the point where people who have been defaulted into something that was for accumulation are now approaching the decumulation stage. They are still in some type of asset allocation fund that they do not necessarily know how to turn into lifetime income.

Studies have shown that as people age veteran target date funds they also look to add other investment options outside of the target date funds. The outside fund could be completely counteracting what the target date fund is doing. Additionally, as people age along the retirement spectrum, even the investment professionals cannot agree on what is the right asset allocation strategy for someone approaching retirement. At that point, there may not be a one-size-fits-all solution.

MR. BORNE stated that planning becomes more important as people approach retirement, and they are more likely to use a planning tool if they are over age 50. Withdrawal rates by all age groups of retirees have been way too high, averaging about 10%. Most financial planners think a person should withdraw between 3% and 5% of their assets if they want the money to last. People with lower balances are in a much worse situation because the money will be depleted that much quicker.

MR. BORNE referred to the Empower Retirement Lifetime Income Score white paper that they publish annually, which looks at the different factors that have an impact on people's lifetime income score in retirement. One of the factors was getting advice. People that have used advice have an average lifetime income score of 87% versus a score of 57% for those that have not used any advice. That led Empower to a concept they call the Dynamic QDIA which automatically transitions a retirement plan participant (at an age determined by the plan sponsor) from a target date investment option into an advice model type of managed account. During that transition, Empower would do an outreach and give the participant a projection of exactly how long their money is going to last in retirement. If the State were to incorporate some type of guaranteed product, Empower can incorporate that into the managed account methodology. Morningstar already has that built in, and Empower is working with them on a lot of their plans. Ten years before retirement, Morningstar begins allocating a portion of a person's money to replace 60% of their income by at least guaranteed sources in retirement. Most people do not have the sophistication to do that, so this is designed to get these sophisticated tools inside the plan, but also to give advice so people know how to use it effectively.

MR. BORNE stated that he cannot guarantee that managed accounts will outperform the S&P 500 or the target date funds or anything, and that is not what the service is about. What has been proven is financial planning alpha. A person can increase their income in retirement by the sequence and set of financial planning products used to get the guaranteed payout.

MR. BORNE said the industry supports the idea of a dynamic QDIA. The Department of Labor has said that a plan sponsor can use two different QDIAs. Many consultant firms have said that there needs to be a more developed solution that addresses participants on the back end that have been defaulted. Empower believes their dynamic QDIA addresses a lot of the concerns on the front end for accumulation and on the back end helping people to spend down, and also to stay in the plan in retirement. Empower can incorporate the lifetime income guarantee products into the advice model as well.

MR. BORNE showed an example of the transition kit that transitioning plan participants would receive with exactly the spend-down and what they will get through time.

MR. BORNE reported that yesterday he received preliminary results of a case study. Empower wanted to look at what impact people in managed accounts have on staying in the plan over time. The preliminary results show that people who have not been in managed accounts have stayed with the plan for 2.89 years on average. People in managed accounts have stayed after terminating service an average of 6.41 years. Further, 30% of the people who were not in managed accounts took a full withdrawal in 2016, while only 15% of people who were in managed accounts took a full withdrawal. He will have the official published results by the next meeting.

CHAIR WILLIAMS mentioned that initially the defined contribution plan participants were defaulted into managed accounts, and then the default was changed to the target date funds. He asked if the correlation in the statistics might be caused by the timing of when people were defaulted into different places.

MR. BORNE said he had asked that as well. The study looked at people who stopped working in 2006 or later, so that could be a number of different categories of people. Empower has the full statistics and can see the percentage of people in each category.

MR. BORNE said Empower realizes there is a cost for managed accounts, which is a concern for everybody. The value proposition has been proven quite a bit. When managed accounts were first introduced, the cost was 65 basis points, and today it is at 40 basis points. The finalized pricing for the dynamic QDIA will be out in January, but it will be less than what is being paid today.

OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

MS. LEA stated that the retirement readiness area is becoming a growing area that the division is interested in. The State has given the participants the responsibility for their retirement and given them choices. The division needs to provide participants services and tools. They would like to bring to the committee some suggested goals that the committee and Board might want to adopt for retirement readiness. The division needs committee input to inform as to what services it should seek. The number of services are growing: some have a cost and some do not have a cost. The important thing is that these are tools that the participants should at least have a choice in selecting. The division needs to know what the goals are and to be on the same page as the ARMB. They intend to bring a list of suggested retirement readiness goals to the next meeting for consideration.

MS. HARBO asked if Ms. Lea meant there was a cost to the participants or cost to the retirement plans. MS. LEA said cost to the participants.

CHAIR WILLIAMS said Ms. Lea had a good suggestion. He added that as a trustee he gets more questions and conversation along the lines of retirement readiness issues than anything else. He noted that Empower seems to be able to pull in a lot of data that can give the committee real concrete information, but he did not think the first numbers were going to be encouraging. The percentage of overall participants who have logged into the Empower website for even a few seconds is something the committee should look at.

MS. HALL stated that the next committee meeting is March 1, 2017.

CHAIR WILLIAMS asked Ms. Lea if there was anything committee members could look at to prepare for the next meeting.

MS. LEA suggested doing some research on what the industry considers to be retirement readiness so trustees are informed when looking at the division's suggestions. She said that when the committee sees the numbers that Empower will provide, they will understand that what the division is doing right now is not working well. The State has to do more or the defined contribution plan members are not going to be ready for retirement, and now is the time to make improvements. She said she would give Ms. Hall some information to distribute to committee members.

CHAIR WILLIAMS said he was interested in finding ways where DCR participants could regard the defined contribution plan as working out for them long term, but right now that is not the feedback he is getting from people.

PUBLIC/COMMITTEE MEMBER COMMENTS
MS. LEA reported that the division won two awards for design of the “Stay in the Plan” postcard and for email communication for the “Stay in the Plan” campaign.

Committee members offered their congratulations.

ADJOURNMENT
The meeting adjourned at 3:10 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