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

Captain Cook Hotel – Club Room II
939 West 5th Avenue
Anchorage, Alaska

June 21, 2017

ATTENDANCE

Committee Present: Tom Brice, *Acting Chair*
Rob Johnson
Commissioner Sheldon Fisher
Norman West

Committee Absent: Bob Williams (out of town)

Department of Revenue Staff Present:
Bob Mitchell (chief investment officer)
Pamela Leary (director, Treasury Division)
Shane Carson (state investment officer)
Stephanie Alexander (board liaison)

Department of Administration Staff Present:
Ajay Desai (director, Retirement & Benefits Division)
Kevin Worley (chief finance officer, Retirement & Benefits Division)
Kathy Lea (chief pension officer, Retirement & Benefits Division)

Others Present: Liz Davidsen, (Alaska director, Empower Retirement)
Peter Ossian (Empower Retirement)

CALL TO ORDER
ACTING CHAIR TOM BRICE called the meeting to order at 10:07 a.m.

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

PUBLIC MEETING NOTICE
MS. ALEXANDER verified that public meeting notice requirements had been published.

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

approved.

APPROVAL OF MINUTES – March 1, 2017

MR. JOHNSON moved to approve the minutes of the March 1, 2017 meeting. MR. WEST seconded. The motion passed without objection.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

No one from the public expressed a desire to speak to the committee.

REPORTS

A. Chief Pension Officer Report

KATHY LEA, chief pension officer in the Division of Retirement and Benefits (DRB) in the Department of Administration, stated that one objective for the last couple of years has been to put the basic provisions of all the plans on the website instead of making presentations. The most asked-for information has been a new employee orientation that employers can link to when they hire a new person, so the employee can see all the benefits that they are entitled to. This would provide the means for the political subdivisions to begin the engagement process with new defined contribution plan employees.

MS. LEA reported that the education team in-house has created the first in a set of videos, which will be previewed to the State of Alaska Human Resource Council on Thursday to get its feedback. The five-minute video will be connected to the State of Alaska's employee orientation site.

The committee viewed the new employee orientation video that explained each of the employment benefits.

MS. LEA said two downloadable forms will accompany the video: a checklist of all the things that the employee must enroll in, in the first 30 days; and a timeline. She added that there will be separate PERS and TRS videos for the State of Alaska. There will also be political subdivision orientation videos for political subdivisions that participate in the Supplemental Benefit System (SBS), for those that do not participate in SBS but do participate in the group health and life fund, and for political subdivisions that do not participate in either.

MS. LEA stated that the information for political subdivisions on the rollout of the deferred compensation plan has been delayed. The rollout was supposed to occur July 1, but the Division's new reporting tool will not be ready until September. The rollout of the deferred compensation plan to the political subdivisions has been moved to January 2018, but the Division will start working with the employers in September on how to get their employees set up.

MS. LEA reported that on the pension side the largest load of retirements will occur in July. There are plans in place to meet the mission on retirements, in case there is a government shutdown at the end of the fiscal year if there is no budget in place.

MR. JOHNSON praised the new-employee orientation video for being short and easy to understand. He asked if the other videos would be edited to take out provisions that do not apply to political subdivisions.

MS. LEA said yes, that a series of new employee orientation videos will reside on the employers' websites, and each video will be tailored to each employer group.

B. PERS and TRS Retirement Readiness Presentation

MS. LEA introduced LIZ DAVIDSEN, director of the Empower Retirement office in Anchorage, and PETER OSSIAN, also with Empower Retirement, who joined her in a presentation of PERS and TRS retirement readiness. *[A copy of the accompanying slide presentation is available in the ARMB office.]* She said the Division of Retirement & Benefits wants to make sure its retirement plan participants are retirement ready. This required some research, including an employee survey.

MS. LEA stated that the defined contribution (DCR) plans were designed to provide 70% replacement income in retirement. The DCR plans are now 10 years old, and it is possible to look at the experience to see if the plans would return that sort of investment. The Division developed a retirement readiness statement, and would be asking the committee to formally adopt it. The plan goal is that any DCR participant who serves 30 years would be able to replace 70% of their income in real terms, recognizing that individual participants may need more or less than 70% in retirement. The Division will prepare the participants for retirement readiness by providing the right investment options and the right education, and by providing them with financial advice and planning services during their working years, to achieve that 70% minimum replacement income. The Division will also provide plan participants with spend-down options that will maintain their income over their lifetimes.

ACTING CHAIR BRICE asked where the 70% replacement income goal comes from and what it consists of – for example, does the calculation include Social Security benefits for some plan participants.

MS. LEA replied that 70% of one's net income is a retirement industry standard for what is generally needed in retirement. The Division's analysis includes only the DCR plan and not Social Security benefits.

COMMISSIONER FISHER thought 70% was an industry standard, inclusive of Social Security. So, the Division's goal is to ensure that the DCR plan participants can achieve that industry standard, under a set of assumptions. One assumption is that the participant spends their entire career in the system, and that they retire at an average age and live to an average age. This information was being presented for discussion purposes.

MR. WEST remarked that the retirement readiness statement sounds almost like the plan sponsor is trying to guarantee the DCR participants 70% replacement income. He felt it should clearly state that it is the plan sponsor's goal that the participants have the resources. Otherwise, it makes it sound like it is a failure if the State or the ARMB does not do something that it could have done to get the participants to 70% replacement income.

COMMISSIONER FISHER stated that the Division's intent by defining retirement readiness is, on an ongoing basis, to continue to assess the resources in the DCR plan and the ability to achieve the 70% target. If financial conditions in some period of time do not allow it, then the Division will come back to the Alaska Retirement Management Board (ARMB) and report that, because of these factors, this plan no longer achieves that goal. Then everyone, collectively, will decide how to respond to those conditions.

MR. WEST voiced his support of the commissioner's explanation.

MR. JOHNSON asked if the statement meant to measure 70% of a participant's income in real terms cumulatively over the whole stretch.

COMMISSIONER FISHER said the intent was to make clear that it is 70% in real terms over the participant's retirement period. What the Division did not want was a person who got 70% replacement income on the day they retired and, 30 years later, because of inflation, it had eroded in real terms to 40% replacement income in retirement. The goal is to maintain 70% replacement income through the entire retirement period.

MR. WEST remarked that that was an ambitious goal.

MS. LEA stated that a definition of retirement readiness is needed because this committee will be involved in making changes to the defined contribution plan in order to meet the goals. The Division wants to provide retirement readiness at the lowest cost for the participants, as well as for the employers. The retirement plan has to be a holistic plan and cannot just focus on accumulation, which is the focus right now. There are insufficient options for drawdown to provide a lifetime income that will maintain the 70% net income replacement. The current annuity options provide a static benefit and allow for periodic withdrawals, but they are unlike the SBS plan and the Deferred Compensation Plan where participants can get a monthly benefit.

MS. LEA said that the Division is looking at what the plan level needs to meet, but it also has to meet the individual needs. The level of engagement for the individual participant comes through the people at Empower Retirement. She invited Ms. Davidsen from Empower's Anchorage office to speak on that.

MS. DAVIDSEN reviewed the new retirement plan advisor model. Her team meets with participants individually to determine where a person is specifically in their retirement planning. Prior to using this model, participants felt they had to get out of the retirement plan and get advice somewhere else. Now, when they leave a meeting with Empower, they know where they stand and if there is a gap in getting where they want to be in retirement. Empower also includes a participant's outside assets in the meeting process. Participants are leaving these meetings a lot more educated as far as where they are in reaching their retirement goals.

MS. LEA stated that the concern today is more on the plan level. One factor that provides retirement readiness is some kind of "guaranteed" benefit in retirement. The defined contribution plan is short on that. However, the committee has heard presentations on how to possibly achieve either a true guaranteed benefit or some sort of plan that would at least provide for the bulk of participants' estimated lifetimes. The Division of Retirement & Benefits will be working with the Treasury Division team to come up with a recommendation. They have already held a pre-meeting and agreed that it would be best if both were involved in making decisions regarding disbursement options and any other services that the plans will be provided with.

When ACTING CHAIR BRICE asked about the ARMB's input into those decisions, MS. LEA assured him that staff would be bringing forth recommendations, and the Board would have the final say on going forward with any recommendations.

MS. LEA stated that another goal is to ensure that any potential retirement income options do not create an unfunded pension liability. Keeping participant fees low is another goal. Further, participant behavior shows that 70% of the DCR participants go into the default option and never move, so any retirement benefit option has to leverage the participant investment behavior.

MS. LEA explained that the Division determined what the employees wanted by combing through the testimony that employees and groups provided over the last few years on proposed legislation to return to a defined benefit plan. The Division gauged what the needs were by doing an employee survey. The legislative testimony was that employees wanted a guaranteed benefit, and they wanted medical benefits for retirees, disabilitants, and survivors. Currently, the DCR plan provides for the retiree but does not provide for a disabilitant or a survivor in a pre-retirement death. People testifying stated that they also wanted some sort of cost-of-living protection (preserving buying power). They wanted sustainable income in retirement, with a sustainable plan, but they also wanted portability.

COMMISSIONER FISHER interjected that the direction is toward creating a slate of third-party products that participants can purchase that would have certain characteristics. The DCR plan would not specifically provide a "guaranteed" benefit, nor would the State be taking on that responsibility.

MR. WEST commented that other plans often use the term "targeted" benefit, rather than use the word "guaranteed."

MS. LEA stated that division staff looked at how the DCR plan stacked up against the testimony that employees and groups gave on what they wanted from a retirement plan. The Division will be focusing on where the DCR plan is short: the guaranteed benefits, sustainable lifetime income, medical benefits for survivors and disabilitants, and some sort of cost-of-living protection for their income in retirement.

MS. LEA reported that the Division looked at the plan's capability to reasonably deliver the 70% of net income for a career employee. They looked at the 10-year returns experienced on the plans and mimicked those forward, reducing the return over time as the employee reaches retirement.

Their conclusion was that the 30-year retiree can expect to reach the target. Further, Empower's retirement readiness report card indicates that a retiree who uses Empower's advisory services might even be able to exceed the 70%-of-net-income number.

PETER OSSIAN of Empower Retirement explained how they analyzed each individual DCR plan participant using a Monte Carlo simulation to get estimated returns on their retirement assets (including their other assets they reported to Empower). From this, Empower estimated that 55% of the PERS population and 44% of the TRS population would reach or exceed 70% income replacement in retirement. Empower is aggregating information for the defined contribution plans quarterly to look at five demographics and age groups: what participants are invested in and their risk tolerance, projected age of retirement, how old they are now, their savings rates, and their expectation for income replacement at retirement. This information will help make decisions on what to supply to the participants.

ACTING CHAIR BRICE asked if Empower has looked at factors such as income level, bargaining unit, and education level of participants that may impact their decision making and contribute, for example, to the 45% of the PERS population that is projected not to reach 70% income replacement in retirement.

MR. OSSIAN replied that age is the starting point when breaking down the population into groups so Empower can help them. On the aggregate level, Empower sees that people in the age groups of 45 to 65 have a gap on the savings rates.

COMMISSIONER FISHER focused back on Ms. Lea's statement that the majority of DCR participants that work for 30 years and put their money in the target date funds is expected to achieve the goal of retirement readiness. He understood that to be true, regardless of their income and whether they are a janitor or a commissioner.

MS. LEA confirmed that that is correct. The modeling was done for three different incomes and the average income for the DCR participants. All of them met the 70% net income replacement.

COMMISSIONER FISHER said the estimated 55% of the PERS population and 44% of the TRS population that Empower reported will reach or exceed the 70% income replacement in retirement are based upon the actual participants in the DCR plans today. Some of those participants came into the DCR plan when they were 45 years old and are not expected to stay employed in the plan for 30 years. Some of the current participants are not invested in the target date funds, so there is a variety of reasons why they are part of the group that is not expected to reach the retirement readiness target. He said this is something the Division believes it should be tracking and reporting to the committee: it goes to the question of whether people are being educated appropriately. He stressed that the DCR plans are expected to work, regardless of income, for people who spend their entire career in the plans.

ACTING CHAIR BRICE commented that the assumption is that people can live on 70% of what they were earning for the rest of their lives. His question was what the demographics look like for the 45% (of PERS participants) who are not expected to hit the retirement income target.

MS. LEA said there is a difference between the targets for the plan level and the targets for the individuals in the plans. The Division has to make sure that the plan is sufficient for a 30-year career employee, and it is.

ACTING CHAIR BRICE stated that 45% (of PERS plan participants) is a lot of participants that are not making the target. He wondered if there was identifiable information that could be pulled to target education and/or to reassess the investment offerings that are provided.

COMMISSIONER FISHER stated that the majority of those who are not achieving the target is because of their time in plan.

MR. OSSIAN said that the data showed the biggest gap was for those participants who are getting closer to retirement. Empower's suggestion is to increase their savings rate or extend their retirement age from 65 to maybe 70, in order to make up the shortfall.

MR. JOHNSON pointed out Empower's bracketed point on slide 7, which was "including other assets reported to Empower by participant." Using the commissioner's earlier analogy, he guessed that a janitor probably did not have much in the way of additional assets, whereas a commissioner might. He felt the point of different demographics having different amounts of outside assets might be confusing the analysis on what everyone was trying to solve for.

MS. LEA reiterated that on the plan level the Division can say that any career employee will reach the 70% of net income in retirement. On the individual level, the question is whether 70% of net income is enough. That will help the Division focus its targeted communications to the older participants. Hopefully, the older participants in the 56-65 age group will have other assets for retirement if they are just starting in the DCR plan at this later age. She referred to slides 9 and 10, showing the age demographics for the PERS and TRS defined contribution plans. There is not much time for the Alaska DCR plans to provide everything the older participants need. The Division can encourage these participants to make an appointment with the Empower representatives, who are licensed and certified to do financial planning, who can help them.

MS. LEA stated that, up until now, the Division has not been able to do that because they have not known the basic question of whether the DCR plans are sufficient. The plans have been in effect for 10 years, and the Division can now say that for the 30-year career employee it is very likely the plans will replace 70% of their net income. On an individual level, participants are all over the board – 70% may not be enough for some of them. A janitor, for example, may need 80-90% of his/her net income in retirement. The Division will target those people to explain how they can make more. This will inform the Division's education, outreach, and the services it provides. She stressed that the target date funds are doing what they are supposed to and getting the participants in those funds where they need to go. The Managed Account group is showing that those participants will meet or exceed the 70% income. She added that plan participants who move out of the target date funds or who are moving into investment options like a stable value fund represent 30% of the plan population. That is a huge number, and the Division has to educate this group that they are not going to make it. This group will be some of the Division's first targeted communications.

MS. LEA mentioned that some employees are police/firefighter or teachers who have a 25-year career horizon. Given their salaries, and if they stay in the target date funds, they may not reach the 70% net income level. But it is important to understand, by contrast, what the defined benefit plan percentage would have been for a retirement that early. A police/fire member retiring at 25 years of service has a 57% income replacement. A teacher with 25 years to retirement in the defined benefit plan would be a 52% income replacement. The Division knows from its analysis that the State participating SBS (Supplemental Benefit System) employees have the greatest chance of exceeding the 70% income level in retirement because of their SBS accounts. In cases where the Division knows what DCR plan participants' Social Security benefit is, those can also meet the income replacement that they need. The participants who are at the greatest risk are late entrants into the DCR plans, as well as those who have opted out of the target date funds (the default option).

MS. LEA explained that the Division is considering a plan design change that could help provide a portion of a retirement benefit. That plan design change would be restructuring the employer contribution in the plan – which is 5% for the PERS employee and 7% for the TRS employee – to prohibit distributions for a vested member until they reach normal retirement age or a service-based retirement age. That would preserve 38% of their accumulated assets for retirement. The Division knows there are a large number of disbursements out of the DCR plans. The restructuring would require an annuity or some other kind of semi-guaranteed lifetime disbursement option to be determined in the future. The Division will bring recommendations in the future for options on how the employer contributions should be managed. The employee would remain solely responsible for investing their own employee contributions. Under this design restructure, the employer contribution would operate the same as a cash-out of contributions does in the defined benefit plans (a defined benefit plan member who cashes out their contributions does not receive the employer contributions).

MR. WEST asked how the proposed DCR plan restructure would compare with other government plans, especially teacher plans. He added that in the non-government world employees, after ten years, are entitled to their employer contributions when they terminate, no matter what. Defined benefit plan cash-outs are structured the way they are in order to encourage long-term employment.

COMMISSIONER FISHER mentioned the concern attached to seeing many participants who are leaving, cashing out, and not rolling into another plan. He supported talking about this as a board, because he viewed the proposed restructure in the DCR plan as a little bit paternalistic. While he sometimes felt that no one knows how to better manage the money than the individual, at the same time the country is almost headed toward a crisis, where there is a whole cohort of retirees who really are not ready for retirement. He said the Department of Administration welcomes the Board's and the committee's input on the question of how the Division should be thinking about this.

MR. WEST raised the scenario of a DCR plan teacher who leaves after ten years, and the employer contributions are not disbursed to them but held until their retirement. That teacher then works somewhere else and eventually reaches normal retirement age and is entitled to a retirement from the Alaska DCR plan. He asked, if the money that was held back experienced significant investment losses, if the ARMB would be taking upon itself the fiduciary duty to preserve those contributions that were there when the teacher left the plan.

COMMISSIONER FISHER thought that the value of the plan would be what the value of the plan was at the time of retirement. He referred the legal question of the fiduciary duty to Mr. Johnson.

MR. JOHNSON said he did not know the specific answer to that. He added that even with a statutory change, he wondered if the actual withholding of the employer contribution portion would pass Internal Revenue Service (IRS) muster for a pension plan.

AJAY DESAI, Division of Retirement & Benefits director, related his experience of administering a defined contribution plan in the private sector that was one-hundred percent funded by the employers. It mimicked a profit-sharing plan rather than a 401(k) plan under the defined contribution structure. An employee is not eligible to withdraw funds until they reach the full retirement age. The money is invested in the market and is in individual accounts that belong to the plan participants. Whatever the values are at retirement are disbursed according to the disbursement rules under the plan. There are no liabilities for the trust. What the Division is proposing for the DCR plans is exactly the same. It prevents the mismanagement by certain individuals. While many people are savvy in managing the funds by themselves, analysis shows that 70% of the population of the Alaska DCR plans does not manage their own money but leaves it in the default option. If this money was managed by professionals, the outcome might be better than the average.

MR. DESAI explained two different things the Division could achieve. Being able to retain the employer contributions in the retirement plans would make the plans much wealthier, and it would probably preserve those funds for the participants' retirement age rather than giving it away at mid-age.

ACTING CHAIR BRICE recalled that the Division had done research on what plan members do with their disbursements, and it might be useful to review what members are doing and their thought processes when they leave the State.

MS. LEA indicated that the Division could update that information. She added that a few years ago they found that most people were simply taking a lump-sum cash-out and not rolling the money over. That is a concern. That behavior erodes people's ability to retire with dignity and to have long-term retirement security. At some point in the future they will have insufficient means to support themselves, so they will have to go onto social programs – if that aid is available.

MS. LEA stated that the Division was proposing the idea of a plan design change to preserve a "guaranteed" benefit. In ongoing discussion, if the idea sounds viable, then the Division will start engaging the actuaries, the legal team, and the tax counsel on this. If it moves forward, the Division, in the upcoming legislative session, would seek approval from the Governor's Office to pursue some legislation to amend the DCR plans to take out the specificity in what disbursement options and rollover options can be. Currently, the SBS and Deferred Compensation do not have those specified in their authorizing statutes that are contained in the plan documents, so they can go with whatever changes need to occur, either from the IRS side or at the plan level.

ACTING CHAIR BRICE remarked that many organizations have been advocating a return straight to a defined benefit plan. He thought the administration should consider floating the proposed change past some of those organizations as well, especially if a change is going to require legislative action.

MS. LEA replied that the Division planned to do that.

MR. JOHNSON stated that a fundamental question is whether withholding the employer contribution until a particular date down the line, instead of blending any member withdrawals, comports with IRS rules on what a public pension consists of.

COMMISSIONER FISHER said that restructuring the DCR plans to prohibit distribution of the employer contribution portion sort of goes against the notion of portability, which is part of the foundation of modern retirement plans. He was interested in understanding whether there was consensus that this was a direction that the committee would support.

ACTING CHAIR BRICE voiced his view that portability is the Yugo (a small, cheap car made in the former Yugoslavia) of the retirement system universe.

In defense of portability, COMMISSIONER FISHER said that most 25-year-olds do not expect to stay with any employer for 30 years. The idea that they have five or eight years of employer contributions locked up in some plan that they cannot touch for a long time does not fit with modern employment behavior. Retirement portability has allowed employees and employers both to underfund their retirement. It has shifted the burden of planning for retirement onto the employee, and the employee has not done a good job of it. Portability is a feature of that system; it is not the driver of the system.

ACTING CHAIR BRICE said he disagreed wholeheartedly in the sense that there are a lot of reasons why people are not preparing for retirement. What everyone needs to be looking at is how to provide retirement with dignity. He did not view providing such a retirement as being paternalistic: he wanted to look at it as not having 65-70-year-olds trying to find work in construction or driving a snowplow truck in icy conditions. He sees guys going to work for the State and not being able to accumulate what they need to take care of themselves. That worries him to death.

MR. WEST remarked that this is a discussion for those who represent plan participants to have with their constituent groups because there is the older perspective and the younger perspective that can be radically different. The typical scenario he has seen over the years is somebody working for ten years and then moving to a different cost-of-living area to take a job. Part of what facilitates that move is cashing out their retirement to buy a house in the new area, and they believe that life will be great from then on because they will be making a higher salary. He did not care what was done, as long as it did not leave a legal liability window that would burden the State down the road for failures on its part to administer, manage or make that guarantee. He thought the Division's proposal was very worthwhile, and he advised the people representing constituent groups to talk to their people and come back with some information.

C. Employee Survey Results – Defined Contribution Plan Members

MS. LEA presented a slide summary of the DCR employee survey results. She said the highlights were that 73% of the participants who responded to the survey want help with their investments; 80% do not know how to spend down their assets in retirement; and 48% of them do not know what income replacement they need in retirement. The health insurance part of the survey indicates that 60% have no plan for how they will meet their health insurance needs in the future, and the ones that did respond do not understand the provisions of the plan and how the state plan can help versus a private sector supplemental plan.

MS. LEA remarked that the Division has the task of providing education in these areas. They will be highlighting more the advisory services that are available to the participants so they understand that they do have help with retirement planning. Spending down assets in retirement will also be a focus, but also from the perspective that the plans need to offer better spend-down options as well.

One surprise from the employee survey was the question about the greatest financial stressors. While division staff intuitively thought it would be the middle age group (35-54) that would have the greatest stressors, the results by age group showed overwhelmingly that it was the 55-69 age group. This was the group that had mortgages, that was still paying off their own student loans, they were trying to save for their children, and they were caring for aging parents. So, the concept of "I will save for retirement later" does not work. The Division will be using these results in its education to encourage the younger participants to start now, because they may not have the opportunity when they get to the 55-69 age group.

MS. LEA stated that staff hoped to come away from today's meeting with a consensus from the committee that the Division would pursue more information on the plan design change that was proposed, and whether they should start engaging the tax counsel and actuaries to flesh out the proposal. They also wished to get agreement on the definition of retirement readiness.

Action Item:

ACTING CHAIR BRICE referred to the June 21, 2017 staff memo recommending the committee's acceptance of the retirement readiness definition (*on file at the ARMB office*) and opened the floor for discussion.

COMMISSIONER FISHER moved that the Defined Contribution Plan Committee recommend to the Alaska Retirement Management Board for adoption the following definition for retirement readiness as a guide for future enhancements to the PERS/TRS defined contribution plans. Retirement Readiness is defined as the average participant with 30 years of contributions being able to replace 70% of their income, in real terms, during the time period from average retirement date to the average mortality date. The plans will accomplish this by providing:

- the right investment options and the right education,
- financial advice and planning services, during their working years to achieve at least 70% of their net salary at the time of retirement, and
- spend-down options that will maintain their income over their lifetimes after retirement.

MR. JOHNSON seconded the motion for discussion.

COMMISSIONER FISHER said that he had no objection to putting this before the full Board, but he did not feel it was necessary. The goal was to get a consensus of the committee that the Division was going to use this definition on a going-forward basis to measure retirement readiness. It would be the standard by which the Division would report to the committee.

ACTING CHAIR BRICE said it was a lively discussion and core to the service of the Board.

MR. JOHNSON indicated he was fine with the committee giving the Division a sense of whether there should be further study on retirement readiness. He was also prepared to give a couple of suggested changes to the definition that might be used going forward. The definition does not have the word "guarantee" in it, and he certainly agreed about avoiding that. In the second sentence of the definition, he suggested it say "…able to replace 70% of their monthly income…" He did not want the definition to reflect a net value over some whole life, which does not necessarily have a link to what someone would be getting on a monthly basis. He said Ms. Lea's presentation was very good and helpful.

COMMISSIONER FISHER responded that Mr. Johnson's suggested change was consistent with the Division's intention. He asked Trustee West about his concern about the ability to replace 70% of income in real terms and the sustainability of that.

MR. WEST stated that this has been a very stable cost-of-living environment since everything went in the tank in 2008. For 15 years before that, it was hard for any investment to even beat inflation. The proposed definition for retirement readiness is talking about meeting a certain percentage of income in retirement – and a purchasing power level. The committee also heard today a proposal to restructure the DCR plans to hold back employer contributions when members cash out and holding that money until their retirement, when the employer-contributed portion may well drop in value during that period of time for whatever reason. Defining retirement readiness as a goal that the average participant with 30 years of contributions can replace 70% of their monthly income in retirement is a fine target, because that is the best the administrators can do. The defined contribution plan is in place because the defined benefit plan was an absolute guarantee, and when markets turned unkind, the actuarial assumptions to determine the funding levels were bad. All of a sudden, in the defined benefit plans, there is an obligation to pay benefits that is constitutionally guaranteed in Alaska, at the same time there is a big difference between the obligations and the amount of assets to meet the expected cost of the benefits. Now there is an effort to make the defined contribution plan look like a defined benefit plan by giving participants all the tools that are possibly available to reach a goal, and maybe even provide encouragement if there are certain limitations to getting to the goal. But there has to be understanding that the world may or may not have changed, and people have different expectations. People 20 years old do not expect to work for the same employer for 30 years. He wished Mr. Williams was present at this discussion because he was the one who talked about teachers leaving Alaska and not sticking around for more than 10 or 11 years. This state is still not very stable, unfortunately, and the revenue picture points that out.

ACTING CHAIR BRICE remarked that the Department of Administration and the Division have heard the debate at this meeting, and he did not want to go on record as endorsing one thing or another. He suggested that they simply consider the committee informed at this stage.

COMMISSIONER FISHER restated the definition with changes, as follows: "Retirement Readiness is defined as <u>a goal of</u> the average participant with 30 years of contributions being able to replace 70% of their <u>monthly</u> income, in real terms, during the time period from average retirement date to the average mortality date. The plans will accomplish this by providing…etcetera." He said the Division would go forward with that definition of retirement readiness and would report back to the committee against that target. At some point, if this committee feels that is inadequate or needs to change in some way, then it could be revisited. Until that time, it would be the target the Division is trying to achieve.

Committee members West, Johnson and Brice voiced their concurrence with the direction the commissioner laid out.

D. Empower Retirement Readiness Report Card

MS. LEA indicated that Empower had prepared a detailed report, and representatives were present and ready to answer any questions *[See Empower Retirement's "Retirement Readiness Report Card" slide presentation on the State of Alaska Public Employees' Tier IV Defined Contribution Retirement Plan, for the period ended March 31, 2017" on file at the ARMB office.]*

MR. WEST said the report contained a lot of great information and showed a good understanding of the plan participants. MR. JOHNSON indicated he had no additional comments.

COMMISSIONER FISHER said Empower's report was fairly self-explanatory. He expressed appreciation for the work that Mr. Desai and Ms. Lea have done that led to this report card. He expected this would be a conversation the Division and this committee would be returning to for many years.

In response to MR. WEST's question about whether the committee should encourage the Division to start down the path of engaging consultants, ACTING CHAIR BRICE stated that the Department of Administration and the Division of Retirement and Benefits did not necessarily need the committee's authority to engage expertise on their proposal. He said that was an informational piece to get some feedback from the committee, in terms of whether the definition was within the realms of reality. He thought people were comfortable moving forward with the definition as Mr. Johnson and Commissioner Fisher amended it. He sensed some hesitancy from the committee to actually put a stamp of approval on the definition.

It was noted that there was the unfinished business of a motion on the table, MR. WEST, who made the motion, and MR. JOHNSON as the second, withdrew the motion.

OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE – None.

PUBLIC/COMMITTEE MEMBER COMMENTS

ACTING CHAIR BRICE thanked everyone for the information and insight, adding that it is an important and ongoing debate.

ADJOURNMENT

The acting chair adjourned the meeting at 11:40 a.m.

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.

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Karen Pearce Brown