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

Robert B. Atwood Building
Conference Center, First Floor
550 W. 7th Avenue
Anchorage, Alaska

June 20, 2018

ATTENDANCE

Committee Present: Bob Williams, *Chair*
Rob Johnson
Commissioner Leslie Ridle
Norm West

Committee Absent: Tom Brice

Department of Revenue Staff Present:
Bob Mitchell (Chief Investment Officer)
Shane Carson (State Investment Officer)
Stephanie Alexander (Board Liaison)

Department of Administration Staff Present:
Ajay Desai (Director, Division of Retirement & Benefits)
Kathy Lea (Chief Pension Officer, Div. of Retirement & Benefits)
Christina Maiquis, (Chief Finance Officer, Div. of Retirement & Benefits)

Others Present: Liz Davidsen (Alaska Director, Empower Retirement)
Tim Parker (President, NEA-Alaska)

I. CALL TO ORDER
CHAIR BOB WILLIAMS called the meeting to order at 2:01 p.m.

II. ROLL CALL
Four committee members answered the roll call to form a quorum.

III. PUBLIC MEETING NOTICE
MS. ALEXANDER confirmed that public meeting notice requirements had been met.

IV. A. APPROVAL OF AGENDA
MR. JOHNSON moved to approve the agenda. MR. WEST seconded.

The agenda was approved without objection.

B. APPROVAL OF MINUTES – March 28, 2018

MR. WEST moved to approve the minutes of the March 28, 2018 meeting. COMMISSIONER RIDLE seconded. The motion passed without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

There was no public comment or communications to the committee.

VI. CHIEF PENSION OFFICER REPORT

A. Legislative Update

Chief Pension Officer in the Division of Retirement & Benefits, Department of Administration, KATHY LEA, had provided in the meeting packet a two-page spreadsheet summarizing the status of bills from the last Alaska legislative session (*on file at the ARMB office*). She pointed out that HB 306 allows additional investment options to be added to the defined contribution plans was signed into law by the Governor on June 18. One of the first options the Division would like to add is the periodic payment that is identical to the option that is in SBS (Supplemental Benefit System). This will be a discussion over the next four months.

COMMISSIONER RIDLE stated that Ms. Lea did tons of work on the bill. She also thanked Trustee Johnson and Trustee West for testifying.

MS. LEA reported that HB 224/SB 185 also passed, which allows persons who retire in TRS to re-employ as a teacher for a one-year contract in school districts that are experiencing unsuccessful recruitment, after the required break-in-service period.

HB 47, which provides relief for five communities (Galena, Pelican, St. George, Anderson and Atka) that were impacted by having more than a 25% decrease in population. Their salary floor will be reset from 2008 to 2012 to more accurately reflect their actual workforce.

MS. LEA also gave a brief summary of the bills that did not pass, including HB 83, which would have allowed new employees a period to choose between a defined benefit and a defined contribution plan. HB 395, the peace officer/firefighter return to a defined benefit retirement, also did not pass. The Division will continue to work with stakeholder groups over the interim on potential new bills.

B. Employer Survey Results

MS. LEA reported on the 60-day survey sent to all 155 participating employers to find out what retirement information they are providing to their new employees. The Division relies on the employer as the first line to provide information to the plan participants. Only eleven employers responded, despite many reminders. The highlights were eight employers send out notifications when the Empower Retirement representative visits a work site; nine of them send out notifications when DRB representatives visit; ten employers proactively encourage employees to attend, but only two actually seek out new employees to ensure their attendance; and four proactively contact employees that are nearing retirement. Fifty percent of the employers say their employees have no education on the retirement plan, and 56% say their employees may understand the plan but they don't like it. DRB finds that, in general, the employers are not fulfilling their role in disseminating information to their employees, regardless of what plan an employee is in.

MS. LEA stated that the employer survey results have played a major part in constructing what will be offered at the Employer Conference in Juneau on October 3-5. The theme will be "Better Together" and will focus on how the employer needs to be engaged as well. As an intermediate measure, the Division is including articles in the Employer News about the employer's responsibility to provide information to new and existing employees, as well as sending them an updated copy of new employee instructions. Meanwhile, the Division of Retirement & Benefits website is currently being redesigned to meet new State standards. When the new website goes live in the fall, the employer page will be redesigned and all the information will be under one tab, instead of the multiple tabs that exist now.

MS. LEA said the Division is discussing with Empower how to update and enhance the welcome information that goes out to new employees.

CHAIR WILLIAMS asked if the employer survey was anonymous or identified. MS. LEA said it was anonymous in order to encourage the most participation.

C. Employer Conference in October

MS. LEA added that employers are complaining that they cannot retain employees with the defined contribution plan (DC). The survey shows that if employees are given no information, of course employers cannot retain them. The Division finds that when DC members attend a seminar and learn what their plan actually is, their comments when leaving are that it is not all that bad and range up to they have a really good plan. Anyone coming from the private sector tends to be very impressed with the plan. At the conference, DRB will be working to get a commitment from employers that they will allow work-release time for their employees to attend at least one introductory seminar.

COMMISSIONER RIDLE said there has been mention about considering legislation to automatically enroll employees into the Deferred Compensation Plan. She wondered if that was something the committee wanted to discuss because the fall is the time for the Department of Administration to turn in proposed bills. Any discussion would have to take place at least by September.

COMMISSIONER RIDLE asked if DRB was allowed to get a list of new employees from the employers so that Empower could connect with them right away and not have to go through the employer.

MS. LEA replied that the Division can pull the new employee information from its own system. She added that that is not done currently because the Division does not have the capacity to address all the new employees backlogged. A future goal is to be able to pull that data and separate the employees by area so that when DRB is in the area they can send targeted information to those employees regarding a seminar.

The Employer Conference will highlight features of the plan and discuss how the plan can be used to attract and retain employees. A pilot program also is underway with the Alaska Department of Public Safety to attract and retain employees. The Division hopes to be able to leverage this program out to all the employers. They have also sent sample flyers to a school board organization that can be used at job fairs. The flyer focuses on the five-year vesting as a positive to attract teachers to Alaska with the knowledge that they can take their money out after five years. The hope is that some of these teachers will like it in Alaska and choose to stay longer.

MS. LEA said the Division is also rolling out a step-by-step presentation on developing a simple financial wellness program that employers can do over seven classes. A problem is people not being able to afford to get into deferred compensation because they cannot manage the money they have. People feel that they just cannot save. More and more plans are going to a basic financial wellness footing in order to help employees get hold of their finances in order to save more for retirement. The employer gains in this because their employees are less stressed and not working on their own financial problems during work time. The Division will have sessions for the employers on joining the State Deferred Compensation Plan so it is added as a supplement to the financial wellness program. Hopefully, the employer will understand the important part that they play in getting the information to the new employees, that it affects the retention of that employee, and that less staff turnover saves the employer money in the long run.

MR. JOHNSON inquired about the percentage of current employees who contribute to the Deferred Compensation Plan.

MS. LEA replied that only State of Alaska employees and two other employers are in the Deferred Compensation Plan now, and the percentage of participation is about 28%.

CHAIR WILLIAMS remarked that he thought all the school districts would be clamoring to get into the plan. He asked if the Division got the sense that PERS employees, who have the option to do supplemental benefits, could see that they can strengthen their financial scenario fairly strongly if they do supplemental benefits and they are contributing to the Deferred Compensation Plan.

MS. LEA said yes, that it is from State employees where the Division has seen the increase in deferred compensation participation. It is a result of the financial readiness reviews that Empower has been doing, the work the DRB counselors have been doing, the seminars being put on, and increased conversation in the workplace about the Deferred Compensation Plan. The Division is developing a different strategy for teachers because where they are not in other plans that the Division administers, the Division has to research to find out what types of plans school districts are already offering to teachers. The Division would like to partner with the school districts to have a representative from the other savings vehicles on hand when DRB counselors are there, in order to talk about all the opportunities together.

COMMISSIONER RIDLE related a couple of conversations she has had that, even though participation in the Deferred Compensation Plan is free to the employers and very little work on their behalf, employers feel it is another thing they have to do – even though it is a big thing to their employees. She wondered how to get around that resistance.

MS. LEA commented that the Division finds that the employers are the hurdle with all its efforts.

MR. JOHNSON suggested targeting married couples or partners as a demographic group for deferred compensation because they would be more likely to have some money to put into the Deferred Compensation Plan.

MS. LEA replied that this morning the Division signed with Empower to do individually targeted communications.

COMMISSIONER RIDLE said one way to become successful with at least deferred compensation might be to work with some of the unions that represent these employees and have the employees demand these savings options from their employers. She was willing to work with union representatives for public employees on that.

MS. LEA said she had talked to the supervisory union for the State, which agreed to a column in their newsletter on retirement topics that people need to know. This will include the financial wellness review and the value of being in a deferred compensation plan.

CHAIR WILLIAMS admitted to being stunned that there was employer resistance to offering the deferred compensation option to their employees. He was under the impression that there would be a cascading flood of people clamoring to get into deferred compensation when it opened up to other employers in January, especially because of the quality of investment options offered under the State's Deferred Compensation Plan. He wondered if there was some misunderstanding among the school districts about the quality of what is available, that they would stick with contracts with other providers and be reluctant to offer another option at the same time.

MS. LEA said she spoke with one school district, whose response was that their energy was directed at getting teachers into the classrooms. They do not have the time or energy to address anything else. She did not know how many school districts felt like that. The Division believes that education is the answer, however finding the right contact in a school district is sometimes hard. That position varies from one school district to another. The Division is looking at setting up actual appointments with superintendents, finance directors or business managers to talk about this over the next year.

MS. LEA explained that DRB has worked with Empower for them to assign their representatives in geographic areas that are similar to the areas that the DRB counselors are assigned to. DRB has worked with the payroll people to make the payroll assignments in geographic areas. At the Employer Conference they plan on introducing the team that the employer can work with – a payroll person, a DRB counselor, and an Empower person. Employers will have time to meet as a group in their geographic areas to discuss the needs that they have. The hope is that this will engender more cooperation by the employers.

VII. PERS AND TRS RETIREMENT READINESS MARKETING AND OUTREACH

MS. LEA reported that the Division and Empower set up a two-day meeting to develop marketing and outreach plans for the next two years for all four defined contribution plans. The goals were to improve education, increase deferred compensation plan enrollment (both by employers and employees), increase member satisfaction with the plans, and increase retirement readiness. Measurements have been set for the goals in three areas: participation in deferred compensation or other retirement savings offered by the employers, retention of employees and assets, and reaching retirement readiness.

MS. LEA referred to a list of immediate initiatives included in the meeting packet and described some of the key points [*see page 29 of the packet*].

LIZ DAVIDSEN, director of the Empower Retirement office in Anchorage, gave a review of the road map the workshop developed for the next two years to ensure that employees reach their financial goals.

MS. LEA mentioned that the defined contribution plans will be rebranded from being called PERS Tier IV and TRS Tier III because it is technically incorrect and very confusing to employees and stakeholders. People do not understand that the defined contribution plan is actually separate from the defined benefit plan. DRB will make a concerted effort to drop the tier language from its publications and discussions and will start with its correspondence. In addition, the PERS defined contribution plan and the TRS defined contribution plan have been marketed together many times. Those two plans are slightly different and may have different provisions at some point, so the Division needs to separate them as well.

MS. LEA explained the illustration of the "Game of Retirement," where the aim is for every member of the plans to have the information needed to retire with dignity. That is where the Division is going to put its efforts in the next two years.

VIII. DB/DC PLANS ANNUAL BENEFIT VS. FINAL SALARY RATIO ANALYSIS

MR. AJAY DESAI, Director of the Division of Retirement & Benefits, stated that Commissioner Ridle at the last meeting had said the Division wanted to present its analysis on how poor or rich the defined benefit plans were compared to the defined contribution plans. [*See the chart on pages 32-33 of the meeting packet*]

He started by explaining the PERS DB plan benefits for police officer/firefighters under Tiers I, II and III who retire after 20 years' service. He noted that the benefits are essentially the same for all three tiers, except that normal retirement age for Tier I members is 55 and for Tiers II and III it is age 60. Based on retiring with 20 years of service and the last annual salary he calculated, the monthly pension benefit would be $3,700 or about $44,000 a year. That is nearly 44% of the last annual salary.

MR. DESAI reviewed the same analysis using the data for all other PERS DB members and a total service period of 30 years. With that extra 10 years of service, those retirees end up receiving a retirement benefit that is about 66% of their last annual salary.

The TRS defined benefit plan scenario used 20 years of service for members retiring to compare against the PERS police officer/firefighters scenario. The TRS last annual salary would be about $10,000 less than that for police/fire, and the monthly pension benefit would be approximately 39% of their last salary, whether Tier I or Tier II.

Still explaining the same chart, MR. DESAI moved to the right half, which was the results of the final salary ratio analysis for the DC plans. He had used a 7.25% annual rate of return on the employee and employer contributions, which he said was a bit conservative. Looking at 20 years' service for both DC police/firefighters and TRS members, their account balances would grow to about $439,000 and $457,000, respectively. If the DC police/firefighter members were to purchase an annuity at a 5.0% annual payout rate, they would receive about $26,000 annually. Comparing that retirement income against their last year annual salary works out to roughly 26% salary replacement a year. When looked at against the PERS DB Tier III annual salary replacement of nearly 44%, it causes concern. When the Teachers' DC plan was developed, the employer contribution was set higher at 7.0%, which in this analysis results in the TRS retirement income of $27,000 a year being a bit higher than the police/firefighters.

MR. DESAI drew attention to the analysis for all other PERS DC plan members who retire at 30 years' service, where the annual salary replacement works out to about 58% of the last year annual salary. That compares to the 64% annual salary replacement for the PERS DB Tier III members after working for 30 years.

MR. DESAI explained that the PERS police officer/firefighters do not have the SBS (Supplemental Benefit System), which the other groups do have. The PERS all other members in the DC plan would get 58% replacement of their last year annual salary after 30 years' service, *plus* the SBS Plan would generate another 54.91% of their last year annual salary. So, the DC plan by itself is designed with conservative assumptions and is pretty much generating a higher retirement benefit, if it is invested wisely.

Looking at the second page of the chart, MR. DESAI pointed out that the only difference in that analysis was a 6.0% instead of a 5.0% annuity payout rate on the DC plans side. He then explained how that resulted in higher annual salary replacement for the different member groups on the defined contribution plans side. Combining the retirement plan benefit with the SBS plan benefit results in a significantly richer benefit. He stated that the Division has more work to do with the PERS police officer/firefighters and the TRS members to educate them about taking advantage of the Deferred Compensation Plan as a third leg of the stool.

COMMISSIONER RIDLE noted that it varies for police/fire from community to community; for example, the City and Borough of Juneau enrolls its police officers and firefighters in Social Security. However, no school districts in Alaska are enrolled in Social Security. She added that some municipalities opt into SBS and some have Social Security. She asked if any municipalities (except for police/firefighters) have neither SBS nor Social Security for their other employees.

MS. LEA replied that about 60 small employers use PERS as their Social Security replacement, and that is all they have.

Responding to CHAIR WILLIAMS, MR. DESAI said the assumption for the annuity annual payout on the DC side is it will last until a retiree is 85 years old. He added that the retirement benefit on the DB side is for a lifetime, although when the actuary does the assumptions their average age assumption is around 85-86 years. It is a common number to use as an average.

COMMISSIONER RIDLE commented that while it is possible to make more in retirement in the DC plan, the notion of the benefit lasting only until about age 85 is one of the main sticking points of the people wanting to go back to a defined benefit plan. There will still be efforts in the Legislature to try to go back to some kind of a DB plan because of the age 85 factor.

CHAIR WILLIAMS remarked that this is the piece where HB 306 can have significance. People know they are locked in but they are worried about living a long time, running out of retirement income, and winding up in total poverty. If they take a small haircut in what they get but they know the retirement income is there for the rest of their life, they will probably take it. Referring to the chart Mr. Desai presented, he said it is obvious that people with only TRS have some real challenges, and if people have only PERS defined contribution they have some real challenges. But if they have the supplemental benefits, and if they work for 30 years in PERS, there is a lot more security there. Those without the supplemental benefit options have a lot more risk.

MR. BOB MITCHELL, Chief Investment Officer in the Treasury Division of the Department of Revenue, made the point that there is an employee and an employer contribution for a participant in SBS. The assumption is that an employee not in SBS would make a deferred compensation plan investment that is equivalent to the employee portion if they were in SBS. If nothing changes in terms of the benefit package, it reinforces the need to target education efforts about the importance of deferred compensation towards some segments of the population that are particularly vulnerable to lower all-in savings rates.

CHAIR WILLIAMS thanked Mr. Desai for sharing the analysis chart of annual benefits for DB and DC plans. During his first year on this committee he had assumed that all DC participants had sort of an equal level of vulnerability. The chart clearly shows that there are different levels of security and options that are available, and the choices have real consequences.

MS. LEA stated that one factor all participants have in common is the risk on the investments. If, at the point of retirement, the markets are bad and their investments go down, it is the biggest risk participants have.

COMMISSIONER RIDLE added that DB participants in Tiers I, II and III may not quite get that they are in the SBS arena and are vulnerable to the financial markets being down when they are ready to retire.

MR. MITCHELL agreed that investment risk is significant, particularly for DC participants who have large account balances as they approach retirement and that are relying only on the contributions to the DC plan. Another significant risk that is particularly borne by DC participants is interest rate risk. Embedded in the analysis presented today is the annuity rate. In a low interest rate environment, the cost of replacing income is relatively expensive. If long rates were to double, for example, the affordability of annuities would improve fairly substantially. He said he wanted to plant that seed so it is taken into consideration in the ongoing discussion of retiree income benefits.

COMMISSIONER RIDLE said the chart also shows that even for teachers and police officer/firefighters without SBS or Social Security in Tiers I, II and III it makes a big difference to have another leg to their retirement income stool.

IX. TREASURY DIVISION UPDATE

A. Monte Carlo Analysis of Target Date Glidepath

MR. MITCHELL made a slide presentation on a target date fund simulation exercise that investment staff had spoken about at an earlier meeting and that the committee had asked for a more formal presentation on. [*See slides entitled TDF Simulation Exercise, dated June 20, 2018, on file at the ARMB office*]

The purpose of the model was to test the likelihood that employees with 30 years of service would have enough assets to last 30 years into retirement. The replacement income selected was 70% of an employee's last year salary. The assumption was also that the plan participants were enrolled in the default investment option, which is the target date fund that is appropriate for them.

MR. MITCHELL spent some time reviewing the other underlying assumptions of the simulation exercise, including the capital market assumptions used and the inflation assumption.

Four cases were tested in the simulation: PERS with SBS; Police Officer/Firefighter with SBS; TRS; and TRS with 6.13% contributions to deferred compensation. MR. MITCHELL explained the graphs showing the outcomes for each case tested.

He raised the question of whether 20 years of service should be considered a career and whether the objective should be to have satisfactory retirement outcomes for people who have worked 20 years in a system.

COMMISSIONER RIDLE responded that there was no real answer to that question. However, some thoughts are that it depends on the type of job: police officer/firefighter can work longer than 20 years if they can do so physically, or they may possibly lack the training to jump into a whole different career. A teacher, on the other hand, could probably work 40 years as a teacher.

MR. MITCHELL acknowledged that these considerations are beyond the scope of this simulation exercise. He noted that actuarially teachers tend to live longer.

He summarized the probability of success expressed as the percentage of the 10,000 simulations that resulted in a positive account balance after 30 years in retirement:

- PERS + SBS = 70%
- Police Officer/Firefighter + SBS = 70%
- TRS = 31%
- TRS + 6.13% contributions to deferred compensation = 56%

CHAIR WILLIAMS asked what the minimum contribution would be to deferred compensation if legislation was proposed to make it an automatic sign-up at employment.

MS. LEA answered that the current minimum for contributing to the Deferred Compensation Plan at enrollment is $25 per pay period.

B. New Initiatives/Plans

MR. MITCHELL said these were discussions taking place on retirement income solutions and activities staff has been engaged in as a result of Board actions on the defined contribution plan recommendations from the Callan survey.

MR. SHANE CARSON, Manager of External Equity & Defined Contribution Investments, started with the retirement income update. Investment staff and Division of Retirement & Benefits staff have been trying to solve for the distribution or after-retirement side so DC plan participants have some secure, and hopefully transferable, income stream in retirement. In January, a team from DRB and Treasury met with eight investment managers in Juneau to go through the different products and strategies that these companies provide. These products ranged from guaranteed minimum withdrawal benefits products, bond ladders, a payment similar to an endowment model, traditional strategies, and then annuities or some version of an annuity mixed with a more traditional strategy to help mitigate longevity risk.

The team met several times after that to discuss the results. They identified a couple of issues and agreed that they needed to somehow put all the products on a level playing field in order to evaluate them. He and Mr. Mitchell put together some model parameters and asked two managers to look at them and try to model out all the different products and provide some results. Those results have just come back, but they have not had time to share them with DRB staff. However, the first look at the model results confirms that there are going to be tradeoffs no matter what product or strategy is selected. Every product will have some degree of give and take: for example, to solve for longevity risk will mean giving up liquidity, or to maximize the amount of payment may mean reducing the length of time that payments are made.

MR. CARSON said it is time to get the team back together again to discuss the model and results and try to define what set of participants it is most needed to solve for. Then they can identify products that will address those particular participants.

MR. CARSON reported that in May he went to a working group that was sponsored by State Street Global Assets. They brought together several stakeholders and policymakers within the industry to try and solve this problem. He found that Alaska was actually fairly progressive in this space in trying to solve the after-retirement side for DC participants.

MR. CARSON reported that he tried to distill the issues with retirement income into three topics. One was that no single strategy is optimal for all participants. There is significant liability exposure if participants are defaulted into an annuity (the U.S. Department of Labor has not provided good safe harbor language and steps for plan sponsors to use an annuity as a default).

MR. MITCHELL listed several degrees of freedom – the plans that they are looking at and then the plan designs. Should the State default participants into one version? Should it be default with opt-out? Should the options be made available voluntarily for the various participants? There are advantages and disadvantages with each of those decisions. Defaulting participants into a product or strategy would provide scale and likely get better pricing, which results in better outcomes. If participants are not defaulted in, then what is participation going to look like? These are considerations that are starting to coalesce. The employee population diverges dramatically when it comes to what they are looking for in retirement, which makes it even more difficult to have one default plan that gets people into retirement mode and satisfies their needs for income certainty, etc.

MR. MITCHELL said the two presentations have similar themes, and staff still has to digest them. Their plan is to bring one or both of these firms to present to the committee at the next meeting so the committee can gain some perspective. Besides educating the committee, he hoped it would stimulate discussion and potentially allow the committee to give staff direction on how to proceed.

COMMISSIONER RIDLE asked why members would be defaulted into a product at the end of their careers.

MR. MITCHELL replied that DC employees are currently defaulting into target date funds (if they do not select an investment option for contributions to go into). The focus there is to adjust the asset allocation as an employee gets near and into retirement. The presumption is that the employee who wants to get to retirement will remain in the target date fund and then pull money out in some manner that is not really well specified. The thought was to examine the default target date fund and put features into the target date fund that would help to solve for retirement income. The committee has heard about some of these retirement income solutions from several providers.

There was a brief discussion about the current annuity products available through the State, which have not changed since the 1980s, and which only about 2% of retirees sign up for. The

2% usage rate is consistent with what is seen nationally and not a direct reflection of the quality of the annuities being offered. The committee also talked about deferred annuities, which do not start paying until age 85 or thereabouts. Mr. Carson related that the working group he attended voiced that people do not like the word annuity, and any products thus named have a low usage rate. Ms. Lea added that at the National Association of Government Defined Contribution Plan Administrators she attended feedback from the very few plans that offered deferred annuities was that the main reason their participants were not taking it was because it reduces the amount of money they get now when they have to put part of their assets into that future annuity.

MR. CARSON reported the status of the Board-directed changes to the defined contribution plans, as follows:

- Combine the Stable Value and Interest Income options that are in the SBS and Deferred Compensation Plan into one fund and subsequently offer that option to the PERS and TRS defined contribution plans. Staff is working on the contracts. August 1, 2018 is the target implementation date. Eliminate the money market funds that are managed by T. Rowe Price in the PERS and TRS plans and roll those assets into the money market fund managed by SSgA also in those plans.
- Passive fixed income bond option – the directive was to aggregate the four existing fixed income options that are available in all the plans into one passive bond option benchmarked to the U.S. Aggregate Bond Index. That is also expected to roll out August 1, 2018. In the contracting phase, working with BlackRock Institutional Trust Company to manage that option.
- Environmental, Social and Governance (ESG) Fund – staff is working through the contract process with the target of an August 1, 2018 roll-out. Termination of Allianz Global Investors as the active investment manager and move to a passively managed option.
- Examination of the existing TIPS (Treasury inflation protected securities) and REIT (real estate investment trust) stand-alone options, which Callan Associates suggested might be better to combine into a diversified real assets option. This effort is ongoing, and staff intends to bring it to the committee in December.
- The Board terminated Allianz NFJ in the DB and DC plans in December 2017. Russell Investment Implementation Services became the interim transition manager, managing the international equity option to a tracking error of about 1.5% to the passive benchmark. The new manager, Baillie Gifford Overseas Limited, was originally expected to start June 1. That has been delayed a bit while the contracting is finalized, and the start date will be re-evaluated.

X. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

MS. ALEXANDER mentioned the meeting calendar and whether the Committee wanted to hold a meeting in September to take up a couple of presentations talked about earlier.

CHAIR WILLIAMS asked Commissioner Ridle about her suggestion to get a committee recommendation and Board support for proposed legislation to automatically enroll employees in the Deferred Compensation Plan. He understood that she wanted this by the normal window of time in the fall for departments to request legislation through the Governor's Office. He thought September would be a better time to take that up than waiting until the December meeting. COMMISSIONER RIDLE confirmed that submitting proposed legislation in September would be timely. She also suggested the option of working in conjunction with DRB to come up with some key concepts of the bill by September for the committee to discuss and make a recommendation to the Board by the December meeting. That timing would work as well.

CHAIR WILLIAMS remarked that the DC Plan Committee and the Board want to increase the security of the retirement plan members, and bringing a bill forward helps stimulate that discussion and raise people's awareness.

COMMISSIONER RIDLE mentioned the crossfire of people not wanting to make the DC plan better because they want to go back to the DB plan. But regardless of which plan, it is important to have a good, strong deferred compensation plan because the analysis shows that contributing to deferred compensation helps, no matter what retirement plan members have.

MR. DESAI stated that, based on experience, if people contribute a flat amount, such as the $25 minimum in the Alaska Deferred Compensation Plan, it remains at that level and does not rise. Once the deduction begins, people have a tendency not to look at it. He preferred setting a percentage contribution that grows with the salary up to a certain level and to some maximum percentage, such as 5% or 6%.

XI. PUBLIC/MEMBER COMMENTS

MR. TIM PARKER, President of the National Education Association-Alaska, presented four major risk factors for TRS DC plan members that he wanted to hear some discussion about at a future meeting. There are about 8,000 teachers in the state. The first risk factor of great concern for TRS Tier IIIs is living past age 85, when statistically their retirement benefits could run out. Second, having no Social Security benefits or SBS is a huge concern for the members. For people who have SBS and/or Social Security, it is like a stopgap that catches them when their retirement payments are exhausted. Market volatility is also a fear, although it is nothing anybody can control. The fourth major risk factor is the health care issue.

MR. PARKER said he is a TRS Tier II member. Tier II puts in roughly the same amount from their paycheck as a Tier III member. To have different outcomes for essentially the same inputs is baffling from a financial standpoint. The outcome for Tier II people tends to be much better overall.

MR. PARKER said he appreciated the Committee discussing the problems with annuities, which he thought were devices that are hard to count on.

MR. PARKER passed on that he hears TRS members ask the question of how much they should be putting in right now. Smart members – teachers of the year – find the Empower website is super-confusing. It assumes they have Social Security when they log in the first time, which they have to figure out how to remove because they do not have Social Security benefits. There are charts that say how much they are supposed to invest, but they don't know how much more they are supposed to invest. He appreciated the comments about trying to help people understand what it is they are supposed to do, because even the smartest members cannot figure it out from the tools available to them.

He expressed his belief that TRS Tier III people are the only people in the United States who are facing as much retirement risk as they are right now. Lastly, he felt “Bjorn the Bear” as a mascot for the State plans might not go over super well with his membership. The membership just wants to be secure in their retirement and feels they are in a bad situation. If they think they are paying for a bear, they will be mad about it. He thanked the Committee for hearing his comments.

XII. ADJOURNMENT

The meeting adjourned at approximately 3:58 p.m., on a motion made by Mr. West and seconded by Commissioner Ridle.

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