

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

**Location:**

Robert B. Atwood Building  
Conference Center, 1<sup>st</sup> Floor  
550 West Seventh Avenue  
Anchorage, Alaska

**December 12, 2018**

**ATTENDANCE**

**Committee Present:** Bob Williams, *Chair*  
Commissioner John Quick  
Tom Brice  
Robert Johnson  
Norm West

**Committee Absent:** None

**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, Division of Retirement & Benefits)  
Kathy Lea (Chief Pension Officer, Division of Retirement & Benefits)  
Roberto Aceveda (Division of Retirement & Benefits)

**Others Present:** Liz Davidsen (Alaska Director, Empower Retirement)  
Tim Parker (Public)

**I. CALL TO ORDER**

CHAIR BOB WILLIAMS called the meeting to order at 2:06 p.m.

**II. ROLL CALL**

All committee members were present at roll call to form a quorum.

**III. PUBLIC MEETING NOTICE**

MS. ALEXANDER confirmed public meeting notice requirements had been met.

**IV. A. Approval of Agenda**

MR. BRICE moved to approve the agenda. MR. JOHNSON seconded the motion. A roll call vote was taken, and the motion passed unanimously.

**B. Approval of Minutes - September 19, 2018**

MR. BRICE moved to approve the minutes of the September 19, 2018 meeting. MR. WEST seconded the motion. A roll call vote was taken, and the motion passed unanimously.

**V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES**

There were no public comments or communications to the Committee.

**VI. CHIEF PENSION OFFICER REPORT**

CHAIR WILLIAMS introduced KATHY LEA, Chief Pension Officer, Division of Retirement & Benefits (DRB), to present the report. MS. LEA welcomed ROBERTO ACEVEDA, Counseling and Education Manager, and LIZ DAVIDSEN, Alaska Director of Empower, who will also be presenting to the Committee. MS. LEA informed there are currently 8,094 Defined Benefit (DB) PERS members eligible for retirement and 3,689 TRS members eligible for retirement. These amounts are slightly higher than the average number of eligible retirements over the last five years. The number of combined PERS and TRS retirements per year is approximately 2,200.

MS. LEA advised the demand for financial counseling appointments has significantly increased. There are a total of nine counselors. Changes in systems have made it possible for the regional counselors to be more responsive to individual counseling appointments. Two retirement and benefits specialist positions have been added in the FY 20 budget to assist with counseling, and two non-permanent retirement and benefits specialists have been added to focus on certification aspects.

MS. LEA reported on the six-week survey of retirees who had begun spending down their Alaska Supplemental Annuity Plan (SBS) assets. The survey was distributed to about 3,000 participants and 152 responses were received. The intent was to gain insight regarding how prepared the retirees felt and how the assets were being spent. MS. LEA highlighted the report showed 73% of the retirees had a financial plan when they retired and 44% felt they had an efficient spend-down strategy for their SBS assets. The report showed 72% of retirees took into account unexpected financial events in their planning, and 31% of retirees actually had experienced an unexpected financial event. The results will be used to increase education in these areas during all counseling sessions.

MS. LEA stated the regulations to add the periodic payment option to the PERS and TRS Defined Contribution (DC) plans remain at the Department of Law for review. Changeover at the Department of Law is ongoing and a permanent replacement for a DRB attorney position has not been assigned. The attorney currently assisting DRB is unfamiliar with regulations and the regulation process. It is anticipated the regulations will be released by the end of the month. The process will continue with a 90-day public notice period, followed by the presentation of the order by the Commissioners, and effective date 30 days afterward.

MS. LEA discussed the recent TRS outreach efforts, specifically consisting of the focus group of TRS superintendents. The insights revealed the current gaps in knowledge, communication, and disengagement of the focus group. Some superintendents did not know if they even receive the DRB monthly newsletter for employers, and those who do receive the newsletter stated they do not read it. The focus group of superintendents did not know the plan provisions, and were unaware of the occupational death and disability benefits, retiree medical benefits, and health reimbursement arrangement. The focus group does not currently take retirement plan information to job fairs. The focus group described their new employee orientation as vigorous. However, it includes little to no information about the retirement plan. The focus group was unaware the employer website section includes all of the new employee orientation videos. The focus group did not know Empower is the State's partner and provides free financial education and planning services. The focus group did not know the contribution rates and was unaware the State opened the 457 plan, despite the Division contacting school districts multiple times. The focus group was very confused regarding eligibility. The focus group provided valuable contacts to DRB to assist in educating teachers and superintendents. The focus group offered the Division an opportunity to visit and present plan information during in-services this school year.

MS. LEA informed the results of the focus group were reported to DR. PARADY. The Division gave a presentation at the new superintendent's academy last week highlighting Empower's process, which includes financial education and advice. The Division continues to work on better ways to ensure the information disseminated to superintendents is actually reviewed. The Division has begun a top-down education strategy. It will begin with superintendents and will next move to educating finance directors and human resource managers. The Division was dismayed with the disengagement shown by the superintendents.

MR. JOHNSON asked if MS. LEA believes school districts have a legal obligation to inform employees about the plans. MS. LEA does not know if there is a legal obligation to disclose plan information. She advised the strategy also includes engagement with unions to provide the plans educational information.

COMMISSIONER QUICK anecdotally affirmed he experienced a disconnect sometimes while at the Kenai Peninsula Borough. The information is available. He emphasized the important role superintendents and other chiefs of staff have in distributing the material.

MS. LEA provided members with a packet of marketing materials currently being utilized. She described each of the items given to new employees, existing employees, and at job fairs. MS. LEA noted new employees no longer receive an employee handbook and are currently directed to the State website for retirement information. MS. LEA reported many employees have the misconception Empower is a vendor. She discussed the importance of communicating Empower is the State's partner and provides advice services. The job fair materials were well-received by the teacher placement representative.

## **VII. NEW EDUCATIONAL OUTREACH**

MR. ACEVEDA explained he works with employers, employees, and members on a daily basis. He reported a consistent complaint received is the lack of counselors providing education in the field. MR. ACEVEDA responds to the complaint by highlighting the team does the best they can with the limited resources allowed. The counselors do provide telephonic and webinar presentations.

MR. ACEVEDA gave a description of some of the impactful outreach occurrences this year. An ambassador project and cooperative effort was conducted between the Department of Public Safety (DPS), DRB, and Empower to determine and address the current underlying crisis issues with recruitment and retention deficiencies. MR. ACEVEDA reviewed the results of the study showed there was no formal initial retirement planning process for new employees. There was no direction or education for existing DC and retirement plan employees, other than the DRB contact information, and there was no retention plan.

MR. ACEVEDA commented DPS was eager to receive assistance. He described the steps taken to address the deficiencies included additional access to onsite presentations, marketing materials for both new employees and existing career employees, website information, contact information for the Division and Empower, and access to the annual schedule for continued ongoing education.

MR. ACEVEDA described the employer conference as another example of impactful outreach. The employer conference occurs every two years and is offered to all State employers. There were 75 employers enrolled this year, comprised of over 150 attendees. He noted approximately 70% of the participants were first time attendees, who had no background of the plan or its functions. MR. ACEVEDA emphasized the extreme gap in knowledge regarding the plan. One explanation for the breakdown is many of the participants reported they do not read the DRB materials sent to them. The open rate is approximately 38%. MR. ACEVEDA believes a new way to communicate must be found and the information that is sent must have increasing value.

MR. ACEVEDA reported the employer conference revealed many of the employers are within organizations undergoing 100% turnover. The employers are disconnected and have little to no understanding of current processes and obligations. MR. ACEVEDA discussed ways to mitigate the disconnect include developing an employer toolkit to be housed at every site outlining the plan, the employer obligations, the employee obligations, and available resources.

MR. WILLIAMS inquired as to the possible reasons for the shockingly low interest or perhaps resistance regarding the deferred compensation roll-out. MS. LEA does not believe there is necessarily resistance to the deferred compensation program. The focus group of superintendents provided feedback they have an overabundance of responsibilities, and retirement information is usually delegated to the finance director or business manager. MS. LEA noted a new FAQ will be crafted to better market the defined contribution plan. She informed one of the school districts that is participating in the deferred compensation plan will be the ambassador for TRS to make additional connections. MS. LEA informed one of the biggest findings this year is the realization employers and employees are not reading the

educational materials provided. The efforts of DRB will now focus on personally contacting employers. This will occur as a segue to the introduction of the redesigned employer section of the website. MR. ACEVEDA conveyed another consideration regarding the timeliness for election of the deferred comp offering is many of the business cycles of employers contain only a few meeting opportunities per year to discuss such decisions. MR. ACEVEDA advised a monthly teleconference call has been established with employers to add value and provide needed information. The video production integrity for marketing materials has improved and will contribute to the educational efforts.

COMMISSIONER QUICK commented on the importance of utilizing the Commissioner of Education as a resource to emphasize to superintendents and finance directors the significance of communicating with DRB to understand the information presented. MR. BRICE suggested DRB engage with the AML conference, school board and superintendents associations, AFT, ASEA, APEA, AFL CIO, IBW, and other annual gatherings. MS. DAVIDSEN noted Empower set up a booth and provided information at the AML conference recently. She welcomed any additional contact information from the Committee in support of this necessary foundational outreach. MR. BRICE and COMMISSIONER QUICK agreed to provide contacts.

MR. ACEVEDA continued the review of conclusions from the employer outreach. Mass marketing is an ineffective form of communication. Target marketing will continue and is being designed for Millennials, Generation X, and Baby Boomers. The most impactful process is the one-on-one individual meetings. DRB is working with employers to provide meaningful solutions to change their behavior.

MR. BRICE understands employers receive a high volume of mail and communications. He feels new hires are inundated with paperwork and agreed the implementation of following up with employees a year or two after the initial start date will prove beneficial. MS. DAVIDSEN noted the Empower road map includes the one to two-year follow-up plan. MS. LEA advised the addition of the two counselors will facilitate the ability to reach out to members on their annual anniversaries. Another effort that will be explored in the spring is conducting a tele-townhall, which allows for up to 1,000 people to participate at one time. The health team is currently using this method and the pension side is watching its progress.

COMMISSIONER QUICK supports the progressive transition from general marketing to target marketing. He added innovative private sector companies are following the same path.

### **VIII. EMPOWER UPDATE**

MS. DAVIDSEN explained the experience study analysis has been extremely insightful in helping to determine the best ways to utilize the resources available. Empower's service model includes the one-on-one sessions. There have been 1,400 sessions conducted this year, exceeding the goal of 12 per week. The goal will increase next year with the addition of the two new counselors. MS. DAVIDSEN reported Empower conducted two employer web-ex conferences discussing fiduciary responsibility versus employer responsibility. Multiple web-ex meetings are scheduled in January focusing on the 457 plan. There are currently nine

employers enrolled, four of which are school districts, and 12 additional employers are engaged in current discussions.

MS. DAVIDSEN announced next year projects include Morningstar providing the fund data sheets and certain processing operations to be separated for ease of access.

#### **IX. UPDATE ON REAL ASSETS INVESTMENT OPTION**

CHAIR WILLIAMS introduced SHANE CARSON, State Investment Officer. MR. CARSON explained today's presentation is an update on the real assets investment option process and no action item will be considered. In September 2016, the consultant Callan presented their investment structure review to the Board and made multiple recommendations for improvement. For real assets, Callan recommended:

- Inclusion of a fund that would mitigate risk
- Exploration of diversified real assets funds, either active or passive
- Consideration of combining REITS and TIPS into one option

MR. CARSON showed the current participant-directed plan's investment options menu and highlighted Callan's real assets recommended changes. It reflects about 2.3% of total assets as of September 30. MR. CARSON described a graph created by staff that attempts to quantify Callan's recommendations. He agreed the recommendations would provide participants with a way to better diversify their portfolios. MR. CARSON gave a detailed explanation and description of the beta and correlation of the recommendations.

MR. JOHNSON commented the strategy seems to be one utilized by a giant portfolio rather than an individual. He inquired if it is necessary and prudent to offer participants more than three or four options for their portfolio. MR. CARSON interprets Callan's recommendation as combining the TIPS and REITS options and adding the real assets diversified option. This would result in one fewer option available, and would be better posed to accomplish the goals than the TIPS and REITS do as standalone options.

BOB MITCHELL, Chief Investment Officer, identified the intent related to the broader portfolio is to provide an investment that is correlated to inflation, but is not highly correlated to stocks. There is no multi-strategy real asset investment product off-the-shelf that does this. This review is to determine how the option would be built and whether or not the option is worth building.

MR. JOHNSON asked for the average number of choices retirees normally have in a portfolio. He questioned the usefulness of creating an option that fine-tunes the portfolio down to 1%. MR. MITCHELL acknowledged MR. JOHNSON's observations are fair. The current real asset options comprise of about 4% of participants' assets. MR. MITCHELL explained portfolios generally have different tiers of investment choices. The default solution is one target date fund tied to retirement age. The next tier is comprised of two layers of customized active investment options.

CHAIR WILLIAMS inquired if there is ability to use the current options as a benchmark and project a comparison of the suggested option. MR. CARSON agreed comparative

information can be made available. He noted the establishment of a proper benchmark will be critical to define its success.

MR. CARSON described the next steps include identifying managers to assist in developing this particular product, given the goals set forth. The plan is to come back before the Committee at the April meeting with a clear recommendation.

MR. WEST requested additional information about the overall historic increase or decrease of the current options. MR. CARSON noted he would have to review the available historic data will provide the information to the Committee. MR. WEST expressed his reluctance to the removal of member options because of current low utilization.

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

None

#### **XI. PUBLIC / MEMBER COMMENTS**

TIM PARKER informed he is a teacher from Fairbanks and is currently the President of NEA-Alaska. He commented at the previous Committee meeting and would like to generally reiterate those comments. The new member concerns he wants to share today regard the question of how much additional money members need to save for retirement, above the current 15%. MR. PARKER conveyed the retirement calculators on the website are very complicated and do not provide a simple, easy answer. He feels it is important for members to have access to a fairly clear picture of their status and a reasonable way to develop a plan. Members do not necessarily have the time, inclination, or ability to perform the calculations to determine the additional amount needed to save so they do not outlive the retirement funds.

MR. PARKER stated many of the members he is representing are teachers and do not have Social Security. He expressed frustration viewing the website's inclusion of Social Security and the resultant need to edit those nonapplicable sections. Some of the retirement calculators for teachers still populate a Social Security option which has to be removed manually. MR. PARKER expressed appreciation for the ability to comment.

CHAIR WILLIAMS welcomed COMMISSIONER QUICK. He expressed appreciation to members and looks forward to future Committee conversations.

#### **XII. ADJOURNMENT**

The meeting was adjourned at 3:47 p.m. with no objection.

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and presentation details, please refer to the recording, staff reports, and written presentation materials on file at the ARMB office.