

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

**Location:**

Alaska State Museum, Lecture Hall  
395 Whittier Street  
Juneau, Alaska

**April 3, 2019**

**ATTENDANCE**

**Committee Present:** Bob Williams, *Chair*  
Commissioner Kelly Tshibaka  
Norm West  
Tom Brice  
Rob Johnson

**Committee Absent:** None

**Other visiting Trustees:**

Lorne Bretz  
Gayle Harbo  
Allen Hippler

**Department of Revenue Staff Present:**

Bob Mitchell (Chief Investment Officer)  
Greg Samorajski (Deputy Commissioner)  
Pamela Leary (Director, Treasury Division)  
Shane Carson (Manager of External Equity and DC Contribution Investments)  
Michele Prebula (State Investment Officer)  
Kekama Tuiofu (State Investment Officer)  
Stephanie Alexander (Board Liaison)  
Coltin Lanz (Administrative Assistant)

**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)  
Dawn Bonet (Division of Retirement & Benefits)  
Josh Hartman (Division of Retirement & Benefits)  
Michelle Holland-Zenger (Division of Retirement & Benefits)

**Others Present:** Stuart Goering (Department of Law)

Liz Davidsen (Alaska Director, Empower Retirement)  
Marybeth Daubenspeck (Empower)  
Sean Lewis (BlackRock)  
Erin Lloyd (BlackRock)  
Paul Miranda (Public) (phone)  
Tim Parker (NEA Alaska President - Public) (phone)

**I. CALL TO ORDER**

CHAIR BOB WILLIAMS called the meeting to order at 10:19 a.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. WEST seconded the motion. A roll call vote was taken, and the motion passed unanimously.

**B. Approval of Minutes - December 12, 2018**

MR. BRICE moved to approve the minutes of the December 12, 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**

Anchorage firefighter PAUL MIRANDA noted he is a PERS Tier IV member. He expressed significant concern about the adequacy of Tier IV for a public safety employee. MR. MIRANDA stated he has seen the simulation exercise presented by Chief Investment Officer BOB MITCHELL testing the likelihood that 30-year employees will have sufficient assets 30 years into retirement. The findings were based on police/firefighters who receive Social Security or Supplemental Annuity Plan (SBS) assets. Most firefighters in Alaska do not receive Social Security or SBS. The closest comparison in the simulation was a teacher who did not receive Social Security or SBS. However, teachers receive a 7% employer contribution, whereas firefighters only receive a 5% employer contribution.

MR. MIRANDA noted the simulation predicted the teacher had a 31% chance of success in retirement. The simulation assumed 30-year careers, which due to the physical nature of public safety work may not always be possible. There was no discussion of pre-Medicare health costs. MR. MIRANDA understands the cost of healthcare premiums 20 years in the future is an unknown. He is aware of premiums costing a former recently retired coworker approximately \$2,000 a month. MR. MIRANDA expressed worry regarding what is accumulating in his Tier IV account. He has met with professionals and is not on pace to provide secure retirement with Tier IV for himself and his family.

MR. MIRANDA asked the Committee to please request MR. MITCHELL to update his simulations to include a firefighter or police officer that does not receive Social Security or SBS and include the higher age of the new public safety employee of about 31 years old. He requested the updated simulation contain service times of 20, 25, and 30 years.

TIM PARKER, teacher and NEA Alaska President, requested the Monte Carlo analysis be updated to reflect simulations for fire and police employees. MR. PARKER requested additional information be provided to teachers regarding the path to obtaining Social Security and information on how this affects the Government Pension Offset Windfall Elimination Provision (GPO WEP). MR. PARKER noted districts appear to have different avenues, including SBS and Social Security. He expressed the difficulty in identifying which districts have which benefits and asked for the Committee's assistance.

MR. PARKER asked for clarification from the Committee regarding what it means to participate in one of the State's deferred comp versus purchasing a 457 through an outside vendor. MR. PARKER expressed concern from teachers who are carrying increased risk and are not meeting the minimal benchmarks reflected in the Monte Carlo analysis to reach retirement. MR. PARKER commented on the particular concerns regarding the lowest earning PERS educational professionals and the high projections simulated in the Monte Carlo analysis that the PERS employees are projected to retire with a larger sum of money in the defined contribution account than the higher wage-earning TRS certified employees. He requested additional clarification.

## **VI. CHIEF PENSION OFFICER REPORT**

### **A. Division of Retirement & Benefits Update**

CHAIR WILLIAMS introduced KATHY LEA, Chief Pension Officer, Division of Retirement & Benefits (DRB), to present the report. MS. LEA informed a request has been received from NEA regarding which districts have SBS and Social Security. The list is being prepared and should be delivered by Monday of next week. MS. LEA stated she has requested MELANIE HELMICK, State Social Security Administrator, to advise NEA on the mechanisms to reenter Social Security.

MS. LEA provided statistical data on activity for the first three quarters of the year. Approximately 24,000 phone calls occurred, 4,054 one-on-one appointments, 1,341 retirements processed, 42 disabilities processed, and 1,268 death benefits processed. MS. LEA informed ROBERTO ACEVEDA, DRB, will give the report on staff's authorized travel. There was no web-based outreach due to the contacts during travel. Staff continues to struggle with requests from members to meet with a counselor. The proposed budget allows for an additional two Retirement and Benefit Specialist II positions in July. The intent is to shift the work so the Field Counselors are better able to dedicate time meeting with members. Improvements have been made to the online appointment scheduler.

MS. LEA introduced the counselors present; JOSH HARTMAN, DAWN BONET, and MICHELLE HOLLAND-ZENGER. MS. LEA informed the Division has been operating on a reduced travel budget for the last four years. All field travel for the remaining fiscal year has been denied due to budget constraints. Other methods to reach membership are actively

being sought, including personalizing video presentations, conducting tele-townhall meetings focusing on Defined Contribution plan education, and possibly utilizing Skype for Business. Approximately 60% of retirees seek and receive counseling before retirement.

MR. JOHNSON noted the Governor's description of where travel costs should be cut included implied and specified exceptions in the memorandum, particularly with respect to those who are quasi-independent agencies. The ARM Board is administering as Trustees for third-party interests. MR. JOHNSON feels it is appropriate to consider the ARM Board the equivalent of a quasi-independent agency. The monies expended for the costs of travel come first from the trust funds. MR. JOHNSON noted another exception in the Governor's directive is respect to those areas where monies can be gained as a consequence of expending travel funds. He submitted there is a high degree of probability there would be monies saved by the travel, either in the form of counseling potential retirees to avoid the cost of future litigation issues and dispute resolutions. MR. JOHNSON strongly urged the COMMISSIONERS to consider achieving greater availability of funds for travel.

CHAIR WILLIAMS expressed concern for the 40% of retirees who do not seek and do not receive retirement counseling regarding possible confusion around irrevocable decisions. He emphasized the importance of educating members.

MR. ACEVEDA described the current outreach and education processes within the reduced budget environment. 2015 was a full travel budget year. 2016 operated on a three-quarter travel budget. 2017 operated on a half travel budget. 2018 operated on a half travel budget. 2019 is operating on a one-quarter travel budget. Overnight travel is restricted. Anchorage, Wasilla, and Juneau do not require overnight travel. Travel contacts totaled 1,241 participations in 2016, 1,308 participations in 2017, including web-based requests, 918 participations in 2018, and 1,617 participations to-date in 2019, with no web-based requests. There is strong demand for additional individual personalized meetings.

The decrease in participations in 2018 was primarily due to departures of two senior employees in 2016 and 2018, and a Juneau to Anchorage counselor relocation. Counselor replacement is difficult and may take up to two years for adequate training. MR. ACEVEDA believes employer and member complaints have diminished because of the additional outreach. MS. LEA explained the importance of education relating to lawsuits and the misunderstanding of survivor options. She noted onsite visits are more likely to result in higher one-on-one counseling participation rates.

COMMISSIONER TSHIBAKA requested statistical information be provided to verify the benefits of one-on-one counseling, which could be used to support a case for additional budgeting. MS. LEA agreed.

MS. LEA informed employer enrollment efforts for Deferred Compensation have been slowed due to the implementation of the new employer services reporting system. However, the new system is complex and may take a full year to onboard all of the employers. Therefore, the enrollment efforts for Deferred Compensation are expected to resume at full force. The periodic payment regulations have completed the public notice. They are

finalized. COMMISSIONER TSHIBAKA informed she signed the adoption on March 29<sup>th</sup>. MS. LEA noted the regulations will be effective April 29<sup>th</sup>. The publications for the DC plan will be revised to include the periodic payment option.

### **B. Legislation Update**

MS. LEA provided the legislative update. There are three bills affecting the pension plan. House Bill 11 (HB 11) seeks to open the DB Plan to allow membership of Alaska State Troopers. There are potential equal protection and IRS violation concerns regarding HB 11. It has been assigned to the Labor, Commerce, and House Finance Committees and no hearing has occurred. HB 79 seeks to open the DB Plan to allow membership of all peace officers and fire fighters. There are potential issues in its separation of tier structure. It has passed through Labor and Commerce Committees, and is waiting transmittal to House Finance. An actuarial analysis has been ordered and will be paid for out of the general fund.

MR. BRICE requested additional information regarding HB 79 and asked if the risk is held by the employee. MS. LEA explained the risk is not held by the employee. The bulk of the risk is held by the employer. There are levers in the legislation that allow a change in the employee contribution from 8% up to 10% to share in some of any unfunded liability that grows. There are no diminishment issues for retirees.

MS. LEA described Senate Bill 46 (SB 46) is the new iteration of the prior Defined Benefit/Defined Contribution choice bill that has come before the Legislature every year for the last 10 years. SB 46 allows the choice between DB and DC 90 days after the date of hire. The default is the DB plan. It has been assigned to Finance and Community and Regional Affairs Committees. No hearing has occurred. MS. LEA advised DRB remains neutral for all legislation. Facts and information is provided upon request.

### **C. Empower Update**

MS. LEA welcomed LIZ DAVIDSEN, State Director of Empower, and MARYBETH DAUBENSPECK, Vice President Empower, to provide the update. The fourth quarter saw a downturn for the plans. Overall contributions are outpacing full distributions. MS. DAVIDSEN showed the asset distribution for the plans. She noted the increase in the Stable Value Fund during the last quarter primarily due to the downturn in the market.

CHAIR WILLIAMS asked what education is provided to members to discourage moving in and out of equities based on emotional reactions to market movements. He is concerned about underperformance because of this behavior. The call center counselors provide information regarding decisions for long-term investments. The managed account participants tend to have more funds in their retirement savings over the long-term because they are not moving in and out of the market based on upturns and downturns. The website also contains information regarding long-term investment decisions.

MS. DAVIDSEN described the 457 employer adoption efforts. She showed a list of the current 457 employers and a list of the employers who are in preapproval and discussion stages. The field activity model is now focused on one-on-one financial readiness reviews. Approximately 1,300 financial readiness reviews were conducted last year. The general

education overviews still occur. Two new Empower retirement plan advisors will be hired in 2019, one of which is dedicated in Juneau. The Empower advisors utilize a scheduled appointment structure for one-on-one advice session and administrative issues are addressed by the call center. Empower collaborated with MS. LEA and MR. ACEVEDA to determine where focus is needed in the state. Empower advisors are housed in Anchorage and Juneau. Empower advisors will travel to Fairbanks every three weeks and travel around the state, as scheduled. WebEx retirement readiness reviews will be introduced.

MS. HARBO asked if the Municipality of Anchorage has resolved the issues regarding untimely delivery of employee contributions to Empower. MS. DAVIDSEN commented she understands the Municipality's SAP journey is at a better place.

CHAIR WILLIAMS expressed concern there are only three out of 54 school districts that adopted the 457 plan and two school districts that are in the preapproval stage. He emphasized the importance of continuing the 457 adoption message. A focus group of superintendents has been established to provide feedback on clarifying educational language issues and identifying additional marketing areas for outreach.

MS. HARBO expressed concern regarding low teacher utilization of the 403(b) option. MS. DAVIDSEN informed education is ongoing regarding 403(b) and 457 plans.

MS. DAUBENSPECK announced the President of Empower Retirement, Edmund Murphy, is now also the President / CEO of Great-West Life and Annuity. Rich Linton of Operations will now serve as Executive Vice-President of Empower's Distribution Segments. MS. DAUBENSPECK reviewed Empower's product and innovative solutions roadmap, including new functionality and enhancements that improve the experiences of members and sponsors. The new technology is simple, intuitive, and actionable. Additional client information security measures have been implemented. The website investment experience is undergoing a redesign. The pre-retiree options have been expanded. There is continued focus on additional product solutions.

## **VII. DEFINED CONTRIBUTION PLAN INVESTMENT REPORT**

### **A. Retiree Income Option Update**

CHAIR WILLIAMS introduced SHANE CARSON, Manager of External Equity and Defined Contribution Investments. MR. CARSON informed staff has been working on modifications to the investment lineup of the participant-directed plans and retirement income solutions. He is supportive and pleased the periodic payment option is moving forward. Ongoing discussions continue regarding the benefits and fee issues of the guaranteed minimum withdrawal option. MR. CARSON outlined the benefits and issues. Staff has been working on modeling of a bond ladder option that offers full liquidity, low fees, and a known payment. The barrier is in establishing the \$10 million critical mass for the initial investment to build out the effective bond ladder. Multiple bond ladders would be developed over time. The work and review is ongoing.

MR. BRICE suggested a possible solution to the liquidity issues is removing the option of liquidity from the election. MR. CARSON noted legal aspects of that suggestion would have

to be explored. One of the premises of the modifications regarded the ability to offer liquidity. MS. LEA informed the results of member surveys showed liquidity options to be important to members, and is the reason liquidity options are being reviewed.

MR. CARSON noted the evaluation of an active core-plus fixed income option is still pending and will be pursued at a later date.

**B. Response to Callan Recommendation for a Real Assets Multi-Strategy Investment Option**

MR. CARSON explained the ARM Board contracted with Callan to conduct an investment structure evaluation (ISE) of the Defined Contribution plans with the intent of addressing governance and best practices. Callan reviewed the investment option menu to ensure the structure reflected legal and regulatory trends, product innovation, and adherence to a framework that facilitates plan usage for participants. MR. CARSON reviewed Callan's philosophical tenets. Callan's eight summary conclusions have been discussed with the Board in prior meetings. Today's discussion includes one of the last conclusions to be presented before the Board. The recommendation is to combine the existing TIPS and REIT options into a single multi-asset class real asset fund. The total combined TIPS and REIT options equal approximately 2.5% of participant assets invested in all four plans.

MR. CARSON presented the slides reflecting Callan's recommendation that were presented at a previous meeting. MR. CARSON reviewed the current participant-directed plans' investment options menu. He reviewed a slide that was requested by MR. WEST showing the trend of the percentage of total participant assets invested into TIPS and REITS over the last five years. The objective staff developed regarding this Callan recommendation is to provide a single investment option built from diversified real assets that seek to mitigate inflation and offer diversification compared to a typical 60/40 stock and bond portfolio.

MR. CARSON explained the sourcing and selection process, describing the metrics used for evaluation of the 16 choices. BlackRock Strategic Completion Fund (SCF) was selected after thorough staff evaluation. MR. CARSON reviewed the background and history of BlackRock and described the offering components designed to provide a do-it-yourself participant a complementary real return investment option to further diversify the retirement savings portfolios. BlackRock currently manages \$425 million in both the S&P 500 Index Fund and the passive US Bond option for the ARMB. MR. CARSON described charts showing the rolling three-year correlations of SCF since its inception in 2011 to CPI-U and beta to the S&P 500 Index. MR. CARSON introduced LAURA CHAMPION, BlackRock, to continue the presentation.

MS. CHAMPION expressed appreciation for the ongoing relationship with the ARM Board. She introduced colleagues SEAN LEWIS and ERIN LLOYD. MR. LEWIS informed BlackRock has worked closely with MR. MITCHELL and MR. CARSON regarding this strategy. The strategy was developed to fulfill a dual mandate of inflation protection and access to growth through diversification. The SCF product is specific to defined contribution plans, simple to understand, low-cost, and transparent. SCF provides a complement to current asset classes of large cap, mid/small cap, international, and domestic bonds for an investor

seeking a moderate level of risk. SCF implementation consists of indexing proprietary BlackRock funds. The existing exposures within the fund are approximately 37% global real estate, 41% TIPS, and 22% commodities. The custom structure is determined utilizing a robust risk management system, including an operational tool called Aladdin. BlackRock uses recognized benchmarks for each asset; FTSE EPRA/NAREIT Developed Real Estate Index, Bloomberg Barclays US TIPS Index, and Bloomberg Roll Select Commodity Index.

MR. LEWIS explained the fund is domestically-based and does receive a tailwind as a result of the domestic tax advantage. He reviewed the broad commodity exposure promotes diversification. The energy weighting in the benchmark is capped at 33%. The fund uses mostly futures contracts and some total return swaps to invest in the commodities. MR. MITCHELL asked if the futures contracts are fully funded. MR. LEWIS noted he will review the question with the portfolio management team and follow-up with an answer.

MR. CARSON informed the cost to the participant is a total of 11 basis points, 10 basis points for the management fee and a one basis point for the administration fee. MS. HARBO indicated the returns shown on slide 17 are gross of fees. She commented Trustees have been requesting net-of-fee return information from all funds, albeit unsuccessfully, and requested net-of-fee information be provided for the SCF. MR. LEWIS agreed to follow-up. MR. JOHNSON asked if the net-of-fee returns are simply gross returns minus 11 basis points. MR. LEWIS noted that calculation would be a close estimate, but the fees are deducted on a monthly basis and some compounding may occur.

MS. LLOYD reviewed BlackRock has a team dedicated to participant engagement, who will work closely with the ARM Board staff and Empower to help develop communication materials to assist the DC members in understanding the SCF and how to best utilize it within their broader DC portfolios.

MR. CARSON advised staff recommends the Defined Contribution Committee recommend the ARM Board direct staff to contract with BlackRock to offer the SCF in the Alaska Supplemental Annuity plan, the Defined Contribution plans, and the Deferred Compensation plan subject to successful contract and fee negotiations. Secondly, staff recommends the Defined Contribution Committee recommend the ARM Board direct staff to map participant assets from the existing U.S. Real Estate Investment Trust Index Fund and the U.S. Treasury Inflation Protected Securities Index Fund into the SCF upon meeting appropriate participant notification requirements.

MR. JOHNSON moved to recommend the Alaska Retirement Management Board direct staff to contract with BlackRock to offer the Strategic Completion Fund in the Alaska Supplemental Annuity Plan, the Defined Contribution Retirement Plans (PERS Tier IV, TRS Tier III) and the Deferred Compensation Plan subject to successful contract and fee negotiations, and secondly, recommend the Alaska Retirement Management Board direct staff to map participant assets from the existing U.S. Real Estate Investment Trust Index Fund and U.S. Treasury Inflation Protected Securities Index Fund into the Strategic Completion Fund upon meeting appropriate participant notification requirements. MR. WEST seconded the motion.



MR. WEST commented he is in favor of adopting the fund, but he is not in favor remapping participants because the current 13,708 accounts may not want to move out of their current asset allocation. He feels remapping participants would follow the purpose of a defined benefit plan, but not the purpose of a defined contribution plan. MR. WEST feels the SCF would be a good offering to add to the current investment options. He is concerned about the current trend of limiting the investment choices in the defined contribution plan. MR. WEST would have preferred to have seen this motion presented as two individual motions.

CHAIR WILLIAMS asked what the effects are if remapping the participants did not occur. MR. MITCHELL noted the proposed pricing contemplates moving the existing assets. BlackRock indicated the team would review that option and provide a reply at a later time.

MR. WEST asked for DRB's expectation regarding remapping as presented. DRB staff could not provide an opinion of what participants would think. DRB offered to survey the specific participants in these funds at a minimal cost and find out what they think. MS. HARBO expressed concern about the low numbers of surveys typically returned.

CHAIR WILLIAMS inquired as to what recent action was taken regarding TIPS. MR. MITCHELL informed the ARM Board chose to discontinue investments in TIPS as part of the real assets in the Defined Benefit portfolio. CHAIR WILLIAMS inquired as to ways to provide similar expertise to the DC plans that is applied on a consistent basis to the Defined Benefit plans. He believes the remapping and recommendation is compelling for the 2.5% of assets affected.

A roll call vote was taken, and the motion passed, with MR. WEST voting against.

#### **VIII. CALENDAR REVIEW**

The decision was made for MR. MITCHELL to include an update of the Monte Carlo simulations and to provide additional scenarios at the June meeting.

MS. ALEXANDER informed the locations for the Committee meetings are forthcoming. The June meeting will likely be held in Juneau or by teleconference.

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

None

#### **X. PUBLIC / MEMBER COMMENTS** None

#### **XI. ADJOURNMENT**

The meeting was adjourned at 12:46 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.