

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

**Location:**

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

**June 19, 2019**

**ATTENDANCE**

**Committee Present:** Bob Williams, *Chair*  
Commissioner Kelly Tshibaka (phone)  
Norm West  
Tom Brice  
Rob Johnson  
Allen Hippler

**Committee Absent:** None

**Other visiting Trustees:**

Lorne Bretz

**Department of Revenue Staff Present:**

Bob Mitchell (Chief Investment Officer)  
Pamela Leary (Director, Treasury Division)  
Shane Carson (Manager of External Equity and DC Contribution Investments)  
Michele Prebula (State Investment Officer)  
Stephanie Alexander (Board Liaison)

**Department of Administration Staff Present:**

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

**Others Present:**

Bill Jennings (ARMB IAC)  
Liz Davidsen (Alaska Director, Empower Retirement)  
Justin Hoffman (Empower)  
Dannette Raushe (Empower) (phone)  
Chris Dyer (T. Rowe Price)  
Wyatt Lee (T. Rowe Price)  
Charles Shriver (T. Rowe Price) (phone)  
Kathy Hansen (Public) (phone)

**I. CALL TO ORDER**

CHAIR BOB WILLIAMS called the meeting to order at 10:12 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. The motion passed without objection.

**B. Approval of Minutes - April 3, 2019**

MR. BRICE moved to approve the minutes of the April 3, 2019 meeting. MR. WEST seconded the motion. The motion passed with no objection.

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

KAREN HANSEN informed she has been an Independent Financial Advisor for 30 years. She has over 200 State employees/teachers as clients. It is her practice to review her clients' State portfolio and provide allocation suggestions. MS. HANSEN noted performance reports had been available online for years. Currently, performance reports cannot be found online without signing into Empower's site. MS. HANSEN communicated her clients' frustration in not being able to access the information or make changes because they do not remember their PIN number. MS. HANSEN noted the process is unsatisfactory and does not follow the fiduciary guidelines for the clients. She believes the performance reports should be clearly identified on the State website.

MS. HANSEN expressed her frustration and requested additional investment advice be provided to State employees. The common complaint is there is no one licensed at the Division of Retirement and Benefits (DRB) to provide investment advice. MS. HANSEN gave an anecdotal example of a client who came to her after retiring from the State after 20 years and all of his funds had been invested in a money market account for the entire 20 years. She believes the new employees, Tier IV and above, may look to the public sector if they do not experience a secure and profitable 401(k) retirement plan at the State.

MR. HIPPLER expressed appreciation to MS. HANSEN for her public testimony and asked for clarification that she is unable to find the performance of her clients' funds over the last quarter. MS. HANSEN agreed and noted her clients also do not know where to locate the performance reports.

KATHY LEA, Chief Pension Officer, DRB, requested LIZ DAVIDSEN, Empower, to respond. MS. DAVIDSEN informed all data for fund overview and fund investment

performance is located on the pre-log-in page of the AKDRB.com site, under Investing, Investment Information. MS. HANSEN expressed frustration the fund performance is not easier to locate on the website. CHAIR WILLIAMS indicated there will be follow-up based on the testimony to determine how to make information more visible and transparent.

## **VI. FAIRBANKS SCHOOL DISTRICT AND FAIRBANKS EDUCATION ASSOCIATION NEGOTIATED AGREEMENT**

CHAIR WILLIAMS advised new features were included in the negotiated agreement between the teachers and the Fairbanks School District. He described one unique feature regards a provision whereby some sick leave may be directly placed into a 403(b) or 457 plan to be used toward retirement. Another feature includes the Fairbanks School District's policy to match up to 1% of the teachers' deferral into a 403(b) or 457 plan.

CHAIR WILLIAMS noted the Deferred Comp plan is available to municipalities and school districts. Enrollment has not been as robust as expected. He believes the funds for Deferred Comp have to come directly from employees, rather than from a school district match. However, a change may be possible through legislation. MS. LEA noted an update will be given during the DRB report regarding adding an employer match to the 457 plan. CHAIR WILLIAMS anticipates the report and believes an employer match is a compelling reason for increased participation.

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

### **A. Target Date Fund Simulation Update**

CHAIR WILLIAMS introduced BOB MITCHELL, Chief Investment Officer, who reviewed the Target Date Fund Simulation Exercise report provided. He highlighted this simulation is more thorough and detailed than previous iterations due to requests by REPRESENTATIVE KOPP'S Office. Success for the model is defined as a participant who retires at the normal retirement age of 65 and begins consuming the retirement assets at a level equal to 70% of the final income, then test to see whether the participant would have assets lasting 30 years, including an annual consumption increase for inflation. The model includes inputs for employer compensation, growth rate, inflation, employer contributions, employee contributions, and deferred comp. The timeline options include 30 years to retirement and 25 years to retirement. The total contribution rates ranged from 13% to as high as 31%, depending on participation in the deferred comp program.

MR. MITCHELL explained how the models were created and reviewed some of the assumptions. Inflation was set at 2.25% and employee salary growth was set at 2.75% each year. Information was collected from the Department of Administration, Callan's 10-year capital market assumptions, and Callan's long-term capital market assumptions. Each simulation ran 10,000 trials. The proportion of the trials that had positive balances at the end of 30 years were deemed successful.

MR. MITCHELL showed a graphic of the target date fund glide path relative to years to retirement and continuing years in retirement. The allocation begins at about 90% equities and progressively becomes more conservative with increasing amounts of fixed income and cash as the participant get closer to retirement and during retirement.

MR. MITCHELL showed the report's demographic information regarding active and retired participants and related SBS or no SBS involvement for PERS, Police/Fire, and TRS. Most employees in the defined contribution plan are active. The defined contribution plans were initiated 13 years ago. MR. MITCHELL reviewed an illustration of 250 trial runs. He cautioned members not to focus on the outlier best case outcomes. Graphs are included in the appendix that depict the 25<sup>th</sup>, 50<sup>th</sup>, and 75<sup>th</sup> percentile of all of the trial cases reviewed.

MR. MITCHELL described the chart showing the probably of success for each scenario. He commented the probability of success percentage rates are the same for PERS and Police/Fire because the savings percentages were the same. The only variable is the difference in the income dollar amounts, not the consumption rate or savings rate. The asterisks in the TRS columns delineate non-participation in the scenario because SBS is not available. TRS has an overall lower savings rate. Generally speaking, the probability of success increases, as the amount of savings increases. Additionally, the probability of success increases as the length of time of savings increases. MR. MITCHELL described the contents of the appendix.

**B. Balance and Target Date Fund Evaluation, T.Rowe Price**

MR. MITCHELL informed the target date funds are in five-year increments. The portfolio is ready to approve another five-year increment, which led to T.Rowe Price conducting a target date glide path and portfolio construction review. After their analysis is discussed, SHANE CARSON, Manager of External Equity and Defined Contribution Investments, will request approval for recommendation to the ARM Board.

CHRIS DYER introduced himself, WYATT LEE, and CHARLES SHRIVER on the phone, all from T.Rowe Price. MR. DYER highlighted their professional backgrounds. MR. DYER gave an overview of T.Rowe Price's broad multi-asset capabilities, resources, and commitment, with over 25 years of experience managing the multi-asset portfolios. T.Rowe Price has been in relationship with the ARMB since 1992 with the Alaska Balanced Fund.

MR. LEE apologized for the few grammatical and graphical errors in the presentation. There were no errors in the analysis. The purpose of the analysis was to review the suitability of the glide path for several cohorts of Alaska investors and to review the building blocks that populate the glide paths. Based on the evaluation, the glide path currently invested by Alaska participants appears appropriate, given a long-term focus on income replacement in retirement. The analysis shows the current glide path offers better income replacement than alternatives and appears to be more resilient to unexpected circumstances, such as spending shocks and/or a prolonged timeline. MR. LEE acknowledged the analysis revealed an approach with a relatively higher equity allocation is more important for the teachers' plan, given their savings rate.

MR. LEE gave a summary of the approach used for the glide path review, which takes into account the financial market environment, demographic characteristics, and investor behavioral preferences. He discussed the glide path design process, which includes defining the objectives, building a comprehensive and consistent model, and incorporating intuition and experienced judgment. Key variables to glide path design are relative goal importance,

time preference, risk preference, and demographics. The overall objective of either consumption replacement or balance variability is the most influential variable to glide path design.

MR. LEE described a glide path equity comparison chart, including the Alaska Glide Path, 45 different glide paths from the Morningstar Mutual Fund database, and three S&P glide path benchmarks. The expected retirement age is 65 years old and is shown as 0 on the chart. The model assumes a 40-year investing career. MR. LEE described the analysis assumptions used in the glide path review for two cohorts of Alaska participants, TRS and PERS + SBS-AP, to determine if there are meaningful differences between the two. The current glide path is also shown in comparison.

MR. HIPPLER noted the consumption replacement TRS model assumes full salary at time of retirement, 100%, minus the retirement savings percentage, 8%, for a replacement goal of 92% of salary. He asked MR. LEE if the consumption replacement amount is generally that high during retirement. MR. LEE commented it is typical to expect the standard of living to remain relatively similar early in retirement. Different ranges of consumption replacement and different time horizons are also stress-tested to illustrate the trade-offs between the different models in order to create an ideal glide path. TRS participants need to maintain a higher equity allocation after retirement.

MR. BRICE inquired as to the effect on the glide paths of changing the assumption from a 40-year investing career to a 30-year investing career. MR. LEE believes a shortened timeframe would more than likely push the glide paths' equity allocation higher because the funded status is reduced.

MR. LEE discussed the chart showing the salary ratio benchmarks by age. The PERS + SBS-AP - 50<sup>th</sup> Percentile group and the PERS + SBS-AP - 25<sup>th</sup> Percentile group both came very close to the Savings Benchmarks by Age, without Social Security, at every age shown. The TRS - 50<sup>th</sup> Percentile and TRS - 25<sup>th</sup> Percentile are both well below the Savings Benchmarks by Age, without Social Security, because of the lower savings rate. The TRS needs the additional growth to offset their balances in the portfolios. The chart is the first signal indicating the glide path is appropriate to achieve consumption replacement throughout retirement.

MR. LEE reviewed the evaluation of the existing Alaska Glide Path compared to two of the S&P Target Date Glide Paths in regards to the ability to support long-term consumption and volatility near retirement. The metrics used evaluated the durability of a payment stream over a defined horizon and measured the level of assets remaining at the end of the withdrawal horizon. The potential levels of portfolio drawdown in the five years preceding retirement was shown to evaluate volatility near retirement. The two S&P glide path have relatively smaller drawdowns than the current Alaska Glide Path. T.Rowe Price believes the tradeoff of generating greater income outweighs the potential of excess volatility drawdown.

MR. LEE described the conclusions from the evaluation indicate the current glide path utilized appears appropriate given the long-term focus on consumption replacement. The

Alaska Glide Path provided better potential in all areas compared to the S&P Glide Paths. The Alaska Glide Path showed better potential for consumption replacement, potential for larger asset base at retirement and throughout retirement, and higher expected spending resiliency in retirement. Due to lower contribution rates, the TRS participant base appears underfunded relative to their long-term consumption replacement goals. The existing glide path is better suited to help address this situation than are the alternative glide paths.

MR. LEE continued the presentation giving a detailed explanation of the portfolio construction review. The recommendation for the Alaska Bond Trust is to transition the current core bond allocation to a U.S. Aggregate profile. MR. LEE shared research findings regarding the U.S. Equity Trust regarding a range of alternatives that aim to reduce equity beta exposure. There was no clear preferred approach to equity risk mitigation. No changes were recommended at this time. Additional research and review of strategies will continue.

BILL JENNINGS, ARMB IAC member, inquired if there is a breakpoint at which having different equity building blocks at different points in time would be economically sensible. MR. MITCHELL informed that question would have to be discussed with T.Rowe Price to determine the economic value of additional building blocks. T.Rowe Price indicated the current portfolio construction contains ample flexibility needed to diversify as suggested by MR. JENNINGS. The issue of a particular allocation size at a specific time would have to be entered as an independent item, but is not necessary based on the current construction.

**C. Action: Add 2065 Target Date Fund Tranche**

CHAIR WILLIAMS introduced SHANE CARSON, Manager of External Equity and Defined Contribution Investments. MR. CARSON informed, for the record, as part of the statute for the Deferred Compensation plan and the Supplemental Annuity plan, the Board is directed to consult with the Commissioner of Administration prior to any changes. MR. CARSON discussed these changes with the Commissioner of Administration on June 12<sup>th</sup>. No issues were identified to bring before the Committee. Commissioner Tshibaka agreed.

MR. CARSON advised staff recommends the Defined Contribution Committee recommend the ARMB direct staff to add the Alaska Target Retirement 2065 Trust to the current suite of available participant-directed investment options.

MR. BRICE moved to recommend the ARMB direct staff to add the Alaska Target Retirement 2065 Trust to the current suite of available participant-directed investment options. MR. WEST seconded the motion.

A roll call vote was taken, and the motion passed unanimously.

**Action: US Bond Trust Benchmark Change**

MR. CARSON advised staff recommends the Defined Contribution Committee recommend the ARMB direct staff to change the US Bond Trust benchmark to the Bloomberg Barclays US Aggregate Bond Index.

MR. BRICE moved to recommend the ARMB direct staff to change the US Bond Trust benchmark to the Bloomberg Barclays US Aggregate Bond Index. MR. WEST seconded the motion.

A roll call vote was taken, and the motion passed unanimously.

## **VIII. CHIEF PENSION OFFICER REPORT**

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

### **B. Legislation Summary**

MS. LEA began the report describing the four legislative bills affecting the pension plans this year. House Bill (HB) 11 would place only State Troopers into the Defined Benefit plan, Tier III. This bill has an issue with equal protection because it bifurcates the plan definition of peace officer and fire fighter. No hearings have occurred. HB79 would place peace officers and fire fighter positions into the Defined Benefit plan. A new structured tier would be created to provide a lever on the employee side and a lever on the employer side to change contributions and increase contributions, if necessary, to address potential unfunded liability. HB79 is in the House Finance Committee and will be taken up next session.

MS. LEA noted Senate Bill (SB) 46 reopens the Defined Benefit plan for PERS and TRS, offers new employees the choice between participating in the DB plan and the DCR plan. There were no hearings this session. SB 102 is a retirement incentive plan, requiring the elimination from the budget any positions authorized to take a retirement incentive. There were no hearings this session.

MS. LEA advised ROBERTO ACEVEDA, Counseling and Education Manager, will address new employers that are joining or have joined the Deferred Compensation plan. The option of an employer match is being evaluated. The purpose for opening the Deferred Compensation plan to political subdivisions and school districts was to address shortfalls in funding for retirement. An employer match in a 457 plan does not affect the overall contribution limit. The intent is to seek an employer match of up to 6%. The Department of Law has advised this can be implemented with a plan amendment, rather than legislation. The plan amendment will be developed next month and a public notice will occur. The hope is to have the feature in effect by September 1, 2019. The feature would apply to political subdivisions and school districts. The feature would not apply to the State of Alaska.

MS. LEA informed an invitation has been extended from the Alaska Municipal League this fall to provide information on the funding status of the plans and to discuss employer issues. The largest issue that will affect the DC plan and potentially have an affect on the funding of the Defined Benefit (DB) plan is termination costs. Included in the termination costs is the requirement that occurs when an employee is terminated from coverage. Employers must continue to make contributions to the plan at the past service rate until the unfunded liability is exhausted. MS. LEA anticipates legislation may be introduced regarding termination costs.

MS. LEA reported the new operating budget, if signed by the Governor, includes additional staff positions; three new Specialist II's and two new Retirement and Benefit Technician II's. Three of the positions are replacing long-term nonpermanent positions that have been

renewed consistently over the last six years. Two of the specialists will be dedicated to certification of the Defined Benefit retirement actions. The duty will be removed from the responsibilities of the regional counselors and will enhance the ability to provide outreach to employers and participants.

MS. LEA informed DRB has been nominated for two awards; 2019 Excellence and Innovation Award, and Innovation Award with the National Association of Government Defined Contribution Administrators.

MS. LEA requested MR. ACEVEDA provide an update on the outreach activity. MR. ACEVEDA advised there is no longer a budget for travelling throughout the state of Alaska to provide education to employers and employees. The loss of the budget was expected. The Division has retooled and will be using different types of software and other options for outreach. The tele-townhall has been reviewed and is not economically feasible. Reliance on the Web-Ex outreach has been successful. Usage will proceed for standard seminars and for Deferred Compensation plan outreach. Deferred Compensation enrollments continue at a slow pace.

MR. ACEVEDA noted recent movements of staff have resulted in the vacancy of two counselors. He reviewed the web outreach for the past two months has included 47 additional one-on-one online appointments, four webinars, and one Web-Ex email townhall, which followed the constructs of a tele-townhall and consisted of approximately 570 participants. MR. ACEVEDA reported additional individual appointments totaled 1,460 in the first quarter and 1,747 in the second quarter.

MR. ACEVEDA described the pilot outreach program with Department of Public Safety (DPS) conducted by DRB and Empower to address DPS issues. It was determined DPS does not have a formal onboarding process, does not have direction or education for existing and new Defined Contribution Retirement (DCR) employees, and does not have a retention plan. MR. ACEVEDA described the actions taken to address these issues. The tools provided to DPS to address these issues included videos to assist with the onboarding process, information regarding the online and in-person seminars, the "Better Together" roadmap, contacts list, website information and the online appointment scheduler. A final video is being created to bust the myths about the plan and to provide accurate plan provision information. One of the myths is the members of the DCR plan do not have a retirement health plan. This is a myth because the DCR plan does have a retirement health plan.

MS. LEA informed similar outreach programs will occur with other employers in the state and customized video information will be provided. MR. BRICE commented the outreach is wonderful and needs to rollout to all the employers quickly. MR. BRICE complimented counselor BRANDON ROOMSBURG for providing a diligent counseling session.

CHAIR WILLIAMS expressed appreciation to DRB for their responsiveness and efforts.

A comment was made that in theory, the net present value of a dollar invested in the Defined Contribution plan should be equal to a dollar in the Defined Benefit plan. One plan should



not inherently be better than the other. Benefits, structures, and risks of the plans will be different, but the net present value is supposed to be the same.

MS. LEA provided an overview of the DCR medical health plan provisions provided by statute, including medical, dental, vision, audio, and preventative coverage for the member and eligible dependents. The plan has coordination of benefits. MS. LEA reviewed the eligibility requirements, enrollment process, premium payment chart, deductibles and coinsurance rates. She highlighted the differences between the DCR medical health plan and the DB Legacy health plan.

**C. Empower Presentation**

**New Concierge Service for new hires and terminated employees**

MS. DAVIDSEN introduced JUSTIN HOFFMAN and DANNETTE RAUSHE of Empower. There are a total of five Empower representatives domiciled in Alaska. The focus remains on enrolling employers into the 457 plan. There are currently three employers in the process of enrolling. Last year, Empower conducted 773 retirement readiness reviews for participants. MS. DAVIDSEN explained Empower's retirement services group provides guidance and advice to participants. This is an extension of the Alaska team and call center.

**IX. CALENDAR REVIEW**

There are no new updates to report.

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

MR. HIPPLER requested the scheduled August 9<sup>th</sup> letter to participants regarding the change to the REIT option is included in the next meeting's presentation, as well as an update on any feedback received.

**XI. PUBLIC / MEMBER COMMENTS** None

**XII. ADJOURNMENT**

The meeting was adjourned at 12:29 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.