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

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

September 18, 2019

ATTENDANCE

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

Committee Absent: None

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:
Ajay Desai (director, Division of Retirement & Benefits (DRB)
Kevin Worley (chief financial officer, Division of Retirement & Benefits)
Kathy Lea (chief pension officer, Division of Retirement & Benefits)
Roberto Aceveda (Division of Retirement & Benefits)

Others Present: Greg Ungerman (Callan, LLC)
Drew Corwin (sp) (Empower, Great West Investments)
Liz Davidsen (Alaska Director, Empower)
Marybeth Daubensek (Empower) (phone)

I. CALL TO ORDER
CHAIR BOB WILLIAMS called the meeting to order at 10:01 a.m.

II. ROLL CALL

Five 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. WEST moved to approve the agenda. MR. HIPPLER seconded the motion. A roll call was taken and the agenda was approved unanimously, with MR. JOHNSON not yet present.

B. Approval of Minutes - June 19, 2019

Agenda Item IV.B. Approval of Minutes was not verbally acknowledged.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES - None

VI. TREASURY UPDATE

A. Use of Brokerage Windows

CHAIR WILLIAMS introduced the Treasury update, which begins with a presentation on the use of a brokerage window option in the DC plan. The background was explained that Callan was engaged in 2016 to conduct a study of all of the participant-directed plans. One of Callan's suggestions was to consider the use of a brokerage window option in the plans. Staff discussed the option and recommended against pursuing a brokerage window due to evidence from other plans of low utilization rates and high costs.

During the last meeting, one of the Trustees requested the decision against pursuing a brokerage window option be reconsidered. Staff requested Callan present on the subject. GREG UNGERMAN, Callan, LLC, was introduced to review the prepared presentation. MR. UNGERMAN discussed Callan's key observations. The ARMB has built a great DC plan on behalf of the participants, which provides high quality asset classes and investment fund offerings.

Callan does not have a firm-wide view regarding self-directed brokerage options. Callan believes self-directed brokerage accounts (SDBA) can have the perspective of an added benefit to participants. He noted staff and Empower report very low demand for a brokerage option, citing only five to seven participants over the last five years who have requested a self-directed brokerage option. Callan maintains a DC Index, which shows the low point of plans offering brokerage windows was at 13% in 2009. Today, approximately 40% of plans offer a brokerage window. Within those plans, 71% offer a full brokerage window. However, the participant utilization rate of the brokerage window remains low at about 5% of assets. The NAGDCA's 2018 survey of 63 government plans noted 67% offered a brokerage window with a participation asset utilization rate of 2%.

MR. UNGERMAN continued the presentation discussing the extensive process and necessary steps to implement the brokerage window option. He described Empower has a choice of three different brokerage window solutions. The ARMB would need to evaluate and decide which provider maintains the best integration with Empower and consider factors such as annual account fees, transaction costs, and other expenses, all of which are borne by the participant. Global restrictions and controls would also be considered, such as the percentage of assets that can be invested in a self-directed brokerage account and the types of securities offered/excluded within the SDBA. MR. UNGERMAN reviewed the broad elements of required communication for the SDBA option. He outlined the ongoing monitoring duties of the plan sponsor after the implementation of an SDBA.

MR. HIPPLER inquired if MR. UNGERMAN is aware of plans that utilized the SDBA option and then subsequently decided to drop the offering of SDBA. MR. UNGERMAN noted he is unaware of any plan removing the SDBA once it was added.

CHAIR WILLIAMS requested additional information regarding the seemingly high transaction fees. MR. UNGERMAN explained the brokerage window platform does not have institutional pricing. The investments are identical to the retail platform. A comment was made the pricing for plan members should be lower than retail pricing and the cost structure presented seems to be more expensive than retail costs.

BOB MITCHELL, Chief Investment Officer, asked if the managed account advice can be accessed through the brokerage window. MR. UNGERMAN explained the manage account provider only operates within that core lineup and does not access the brokerage window.

MR. BRICE asked if there are liability considerations the Trustees would have to contemplate before implementation of a brokerage window. MR. UNGERMAN noted he is not a lawyer and indicated the liability is mitigated through an indemnification document acknowledging the member's own risk.

CHAIR WILLIAMS inquired about a brokerage window offered by Vanguard. MR. UNGERMAN informed the Vanguard funds would be available through the windows of TD Ameritrade, Schwab, and Empower's brokerage solution.

B. S&P 500 Index Investment Option

Action: S&P 500 Consolidation

MR. MITCHELL introduced MICHELLE PREBULA, State Investment Officer, to review the proposed action item to consolidate two S&P 500 investment options currently being offered to participants. MS. PREBULA explained the two S&P 500 Index fund managers are State Street Global Advisors (SSgA) and BlackRock. SSgA charges one basis point and BlackRock charges two basis points for management. The total for both funds in the participant-directed plans to-date is $805 million. The S&P 500 consolidation to SSgA would provide a single investment option, consistent fee structure, and a reduction of fees for all participant funds.

MS. PREBULA reviewed the selection process staff conducted. Quotes were requested from 10 vendors from eVestments database, Callan PEP database, and other managers known to staff. Eight responses were received. Each strategy was evaluated on several metrics, including fees, experience, tracking error, existing relationships, and client service. MS. PREBULA provided a high level background of the SSgA S&P 500 Index strategy.

Staff suggested the Defined Contribution Committee recommend the Alaska Retirement Management Board direct staff to terminate the S&P 500 Index fund mandate for the Deferred Compensation Plan managed by BlackRock and contract with State Street Global Advisors to provide an S&P 500 Index fund for the Deferred Compensation Plan, Supplemental Annuity Plan and PERS/TRS Defined Contribution Retirement Plans subject to successful contract negotiations.

<u>MR. HIPPLER moved the Defined Contribution Committee recommend the Alaska Retirement Management Board direct staff to terminate the S&P 500 Index fund mandate for the Deferred Compensation Plan managed by BlackRock and contract with State Street Global Advisors to provide an S&P 500 Index fund for the Deferred Compensation Plan, Supplemental Annuity Plan and PERS/TRS Defined Contribution Retirement Plans subject to successful contract negotiations</u>. <u>MR. WEST seconded the motion.</u>

A Trustee inquired if the tracking error for the two funds were different. MS. PREBULA expressed the tracking error for the funds are substantially similar and the difference is insignificant.

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

C. Monte Carlo Simulation Discussion

CHAIR WILLIAMS explained the Monte Carlo simulation of probability of success was presented at the June meeting by MR. MITCHELL. Many questions from members have been received since the presentation. Two of the questions were:

- What does a 70% success rate mean?
- What additional contribution amount is needed to be placed in Deferred Comp to reach a success rate of 40% or 50%?

CHAIR WILLIAMS informed he and MR. MITCHELL examined the questions. He expressed appreciation for the thorough discussion. Success is defined as a participant having assets that survive 30 years into retirement, assuming the initial consumption in retirement is at 70% of their final gross pay, which grows with inflation during the 30-year period. A 70% success rate reflects the trial simulation results showing 70% of the time, all individuals would be successful, and 30% of the time, none of the individual would be successful.

CHAIR WILLIAMS described the discussion regarding additional contribution amounts and the concern about providing specific financial advice to members on contributions to the plan. It was determined example modeling could be shown at the December meeting outlining the amount of additional contributions needed to reach certain levels of probable success.

VII. DIVISION OF RETIREMENT & BENEFITS UPDATE

A. Empowerment Communication

CHAIR WILLIAMS introduced KATHY LEA, Chief Pension Officer, Division of Retirement & Benefits, and LIZ DAVIDSEN, State Director, Empowerment Retirement & Benefits to provide the update. MS. LEA announced the PERS/TRS DCR and SBS plans and

Deferred Comp plans have won a national award in leadership from the National Association of Defined Contribution Government Administrators for excellence in the new communication campaign developed in conjunction with Empower.

MS. LEA described the annual Empower site visit. Deliberations occurred regarding issues with the contact center providing information not specific to the plans. Empower was very receptive to the concerns. Alaska calls are being taken by all four Empower call centers. Empower has committed to developing a specific team that is proficient in the Alaska plan information. MS. LEA commended Empower for their partnership in addressing the problems swiftly, including changing the model and training for their representatives to provide good customer service for Alaska.

The new generational marketing campaign will be launched this fall. The campaign is tailored to each age group in an effort to encourage enrollment. The annual national retirement savings week campaign will be launched next month, which highlights financial wellness and enrollment into the deferred comp plan.

MS. LEA informed the decision was made for the plans to participate in a financial wellness pilot program conducted by Empower. MS. DAVIDSEN explained Empower's focus is on retirement readiness and all the aspects related to preparedness. Empower has been maintaining resources on the website, and now has developed a way to make retirement readiness and financial wellness more actionable for members under a new tab on the website. MS. DAVIDSEN encouraged feedback from members.

CHAIR WILLIAMS followed up on MR. JOHNSON's request regarding Empower's communication informing the change of the REIT option. CHAIR WILLIAMS asked if a notice of the change was prominently displayed on the website a week before the change occurred and if a change notification letter was sent to members. MS. DAVIDSEN agreed.

MS. LEA continued the overview of the Empower site visit. Discussions occurred regarding a need for more support in Alaska, particularly with respect to the financial readiness reviews. MS. LEA requested MARYBETH DAUBENSEK, Empower, to explain the proposed implementation of a new client service model, which offers additional strategic and operational support. MS. DAUBENSEK advised two staff representatives have been added to the Alaska team this past year. The goals of the new client service model include opportunities for staff advancement within the Empower framework. The proposed model will divide MS. DAVIDSEN's current responsibilities. A manager position of participant engagement will be created and the five staff associates will report to the manager. In addition, a lead RPA role will be created in the team, providing organizational advancement opportunity and continued point-in-time coaching. The intent is to begin implementation of the proposed model in mid-October. MS. LEA expressed excitement regarding the proposed new model as described.

B. Automatic Enrollment and Evaluation of Auto Escalation

CHAIR WILLIAMS noted MR. HIPPLER requested additional information regarding auto escalation and automatic enrollment. MS. LEA discussed auto escalation is also known as auto increase. It is a current feature of the plan. Member enrollment in auto escalation is low, at 54 participants. She believes the low enrollment is due to members' insecurity of their future monetary situation and a general reticence regarding the option. An effort will be made in the fall marketing campaign to provide members with more information on the automatic increase ability.

MS. LEA explained an employer match was recently added to this option. If an employee contributes funds, the employer matches those funds up to a 6% maximum. If an employee does not make contributions, the employer does not match contributions.

MS. LEA discussed the proposed automatic enrollment option is an arrangement whereby a new employee is automatically enrolled into the Deferred Compensation plan and has 30 days in which to opt out. If an employee does not opt out during that timeframe, automatic contributions to the Deferred Compensation plan will begin. The employee would be able to cease the contributions at any time. However, AJAY DESAI, Director DRB, explained the contributions previously made cannot be withdrawn until termination.

Should the Committee adopt the auto enrollment option, the Committee would determine whether the automatic contribution is a percentage of wages or a specific dollar amount. The advantages to automatic enrollment include greater participation in the Deferred Compensation plan and implementation of an automatic savings plan for the employees. The automatic increase option can also be included in automatic enrollment.

MS. LEA explained the legislative requirements necessary to add the automatic enrollment option will take extensive time and planning; approximately two years. Multiple State statutes would have to be modified. Negotiations with every union would have to be conducted. MS. LEA requested the Committee assess the effects to the employer of the automatic enrollment options coupled with an employer-matched automatic increase option. The match is a voluntary option for the employer. The State of Alaska, as an employer, would not provide a match.

MS. LEA explained auto escalation is a provision of the plan for all employers. Determinations have not been made regarding employers who want to participate in automatic enrollment and employers who do not want to participate in automatic enrollment.

MS. LEA requested the Committee provide direction to staff regarding pursuing this effort. MR. JOHNSON supported further pursuit of this beneficial effort.

COMMISSIONER TSHIBAKA asked if MS. LEA received guidance from Division of Personnel regarding the necessity of conducting 13 individual labor negotiations for a statute change. MS. LEA informed she did not receive full clarification. The indication was negotiations would have to occur with the unions, regardless of statutory changes. COMMISSIONER TSHIBAKA advised, for the benefit of the Committee, the current negotiations and relationship with the unions has changed, and is likely to remain challenging.

CHAIR WILLIAMS expressed support for continued pursuit of the possibility of automatic enrollment and automatic increase options.

MR. HIPPLER asked if it is within the Committee's purview and scope to make recommendations that could improve employee outcomes and satisfaction by encouraging participation.

MR. JOHNSON believes there is a statutory obligation to establish Defined Contribution plans and participate with the Department of Administration. He feels it is within the Committee's purview to analyze the options, but he does not feel there is an ability to mandate the options.

MS. LEA informed the next step is to engage the Department of Law to continue working on the statutory and administrative code issues.

MR. JOHNSON moved the Committee request DRB to engage in further review on the subjects of automatic enrollment, automatic escalation, and employer matching contributions in the Deferred Compensation Plan. MR. WEST seconded the motion.

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

C. Review/Discuss Status of Employer Matching Contributions

MS. LEA reported staff has received the amendment necessary from Department of Law and tax counsel to add the employer match for the political subdivisions and school district employers. The amendment has been adopted and the communications campaign is scheduled to begin.

D. Outreach Report and Fall Education Calendar

MS. LEA requested MS. DAVIDSEN and ROBERTO ACEVEDA, Department of Administration, provide the outreach report. MR. ACEVEDA recognized the challenge of providing the same level of counseling and benefit education without a full travel budget. MR. ACEVEDA noted staff has worked diligently in reaching scheduled numbers of outreach events that compare favorably with full travel budget years. There are currently 38 events scheduled, of which 17 are web-ex based presentations. The on-site events are primarily located in Juneau, Anchorage, and Mat-Su Valley.

MR. ACEVEDA reported resources at the Division have been reallocated to hire additional personnel counselors. The Division is almost fully staffed. The total number of counseling appointments has increased in FY20. There are two ongoing direct campaigns with police and fire fighters.

MR. BRICE inquired as to the response from rural Alaska regarding communications. He noted the challenge for rural Alaska includes limited internet access. MR. ACEVEDA explained there are two counselors who provide direct education to rural Alaska. MR. BRICE suggested targeting State employees in rural Alaska. MS. LEA commented on the increase of robust video and teleconference ability in many rural areas through the area's school districts. Negotiations are ongoing to utilize the ability for public employees in the area.

CHAIR WILLIAMS asked if the interest on the HRA accounts has been updated with Empower. MS. LEA noted KEVIN WORLEY, Chief Financial Officer, Division of Retirement & Benefits, would be the best person to answer the question. MS. LEA understands the project should be completed in January. The information will be provided to Empower and will be included on participant quarterly statements.

MS. DAVIDSEN advised Empower is at full capacity with five representatives; three in Anchorage, one in Mat-Su, and one in Juneau. The goal is for each representative to see 25 participants a week.

VIII. UPDATE ON GUARANTEED MINIMUM WITHDRAWAL BENEFIT (GMWB) OPTION

DREW CORWIN, Great West Investments, a subsidiary of Empower, provided an overview of the guaranteed lifetime withdrawal benefit. One of the main points of emphasis in the DC market is guiding participants to save prudently for retirement. A lesser emphasis has been placed on the transition from saving for retirement to how participants spend-down their retirement. As more participants retire, the spend-down management becomes forefront. The three main risks retirees face include longevity, inflation, and market fluctuations.

MR. CORWIN described the Secure Foundation product attempts to:

- provide participants with access to guaranteed income
- relieve participants from behavioral finance
- utilize capital markets appreciation
- provide transparency and accessibility

MR. CORWIN explained Secure Foundation is an in-plan variable annuity product with a guaranteed annual withdrawal benefit. He gave a detailed review of each feature of the product. MR. CORWIN reviewed the fee structure associated with the product and presented examples of sample participant scenarios. The product is backed by the full faith and financial strength of Great West. There is currently no reinsurance agreement in place.

CHAIR WILLIAMS requested additional information regarding the use and definition of an average investor in the presentation. MR. CORWIN advised he will be able to provide the basis and definition at a later point.

MR. MITCHELL inquired regarding the length of time products like these have been available in public plans and how widely adopted they are by peers. MR. CORWIN reported the Secure Foundation product has been offered for about 10 years and adoption is slim. There is approximately $1.3 billion in the product. Empower does not offer any other variable annuity provider products within their platform. The complexity of the product requires specific record keeping aspects facilitated by Empower. A third-party variable annuity provider would add a significant programming expense.

MR. MITCHELL asked what would happen to the Secure Foundation product participants if the ARM Board decided to replace Empower as the record keeper. MR. CORWIN explained the available options. Empower could utilize a frozen fund methodology, whereby the funds not invested in the product would move to the other record keeper. The product funds would essentially be closed for new contributions and Empower would continue record keeping for those funds. Another option could be utilized for participants that are 59 years or older who have distributable events could roll their funds into an IRA and maintain the benefit base. If participants are younger than 59 and-a-half years old, without a distributable event, any benefit paid into the plan would be lost.

CHAIR WILLIAMS commented the election of the product seems to be complicated and entangled with the reliance of Empower as the record keeper. He inquired as to the benefits of offering this product while considering the restrictions. MR. CORWIN agreed the product is complicated, requires ongoing monitoring, and moving the product would incur additional processes for the Committee. The product offers the security benefit of guaranteed retirement income that retirees seem to want.

MR. MITCHELL requested MR. CORWIN discuss the potential federal legislation to create a safe harbor regarding fiduciary risk for products such as Secure Foundation. MR. CORWIN informed he is not attorney and is not providing legal advice. He explained the safe harbor for annuities in plans is best practice and provides due diligence. It suggests the plan sponsor consider costs opposite the benefits of the product, conduct a thorough search for similar products, and determine the insurer can make all future financial payments of the product. How these steps are implemented is not outlined or stated.

MS. LEA gave a detailed report on the results of the research staff conducted with other state plans who have adopted this option, including how the fiduciary responsibility was met and the vendor selection process. At this point, the possibility of the Guaranteed Lifetime Withdrawal Benefit (GLWB) option would only be offered in the PERS and TRS DCR plans. This option is not an attempt to replace the Defined Benefit plan.

MS. LEA advised 36% of all participants surveyed indicated they would have kept their money in the plan if an option like this had been available. She explained the decision to offer this option is complex for the Board and staff, but believes it is easier for the participants to understand compared to other investments.

MS. LEA reviewed the ARMB investment policy and noted the GLWB option is consistent with the policy. The ARMB would continue its fiduciary responsibility by analyzing the vendor, including, but not limited to:

- Payout rate competitiveness
- Solvency rating
- A.M. Best rating of A+ or better
- Cost in relation to benefits provided
- Future fiduciary responsibilities
- Size of insurer
- Level of capital and surplus

- Indicators of insurers exposure to liability
- Structure of the option and guarantees that support the annuity

MS. LEA informed the thorough review process would occur each year. Other annual reviews include:

- All direct interaction with participants
- Overall investment performance of the GLWB funds
- Monitoring the solvency and sustainability of the vendor

MS. LEA described some of the constraints Empower discussed regarding the utilization of an outside vendor to offer the GLWB. The main constraint is the prohibitive record keeping costs. MS. LEA discussed the possibility of submitting requests for information to other vendors. Staff has been working on this option for two years and seeks specific direction from the Committee on continued pursuit of this in-plan option provided by Empower or pursuit of another kind of guaranteed product.

MR. MITCHELL explained the Department of Administration is the administrator for the plan. Historically, Treasury has engaged with the Commissioner in vetting investment options for consideration by the Board. This option has complex investment elements and warrants Treasury's involvement.

MS. LEA introduced SHANE CARSON, Manager of External Equity and DC Contribution Investments, and requested he provide additional comments. MR. CARSON described concerns and considerations he believes are important for the Committee to evaluate, some of which have already been discussed today. One concern is embedded in the economics of the product and the forfeiture of all fees paid as a penalty for early withdrawal. Another concern is the comingling and linkage of the different fiduciary obligations regarding the record keeper offering the product and potential for significant impacts in the event the record keeper is terminated.

MR. CARSON believes the legislative efforts regarding safe harbor should progress further and be considered during this process. He feels the product landscape is somewhat in its infancy. New products and vendors are contemplating solutions to the retirement income scenario and committing now could prohibit investment into a better product in the future.

MR. HIPPLER asked if standard annuities are currently offered in the plans. MS. LEA explained a standard annuity option is offered in all the plans. Approximately 2% to 3% of distributing participants utilize the option. MS. LEA commented the annuity options are not very attractive to participants because there is no liquidity in spend-down and there are no survivor death benefits. MS. LEA does not have the return information today for the standard annuity, but could provide it to members. She believes it is a poor return. MS. LEA noted staff is seeking to replace the current annuity options with a better option.

MR. HIPPLER informed he would be interested in seeking response from Great West if they could offer a higher return product that has no residual value and no market upside potential. The product would look more like a standard annuity rather than a variable annuity. MS.

LEA asked MR. CORWIN if Great West could provide such a product. MR. CORWIN responded he would have to review with the actuaries to determine if Great West provides such a product.

MR. JOHNSON believes the cost of the product in the event Empower is no longer the record keeper must be identified before a cost comparison between different options can be assessed.

CHAIR WILLIAMS asked MS. LEA for her recommendations regarding the Great West product. MS. LEA recommends the Committee continue to investigate this option, as it could provide participants with security and peace of mind in retirement. She believes this product, for a cost, solves the participants' fear of outliving retirement funds and the fear of being subject to the volatility of the market at the time of retirement. MS. LEA feels the issues of the costs and problems with excess withdrawals in draw-down can be addressed with education and counseling.

MS. LEA advised Empower has remained the record keeper for 30 years and no indication of change is expected in the near future. MS. LEA informed MARILYN COLLISTER (sp) will attend the Committee training meeting in December. MS. COLLISTER is a nationally recognized expert in fiduciary law and will be available to answer additional questions related to this option.

<u>MR. BRICE moved the Committee encourage the Department of Administration, in conjunction with DOR, to continue to investigate this option.</u> <u>MR. WEST seconded the motion.</u>

MR. HIPPLER expressed his deep concern regarding variable annuities. He requested a comparison of the yield of this option with the yield of an option containing fewer features. He supports the motion and would like the additional information.

CHAIR WILLIAMS expressed support for the motion with the highest level of caution based on his current concerns.

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

IX. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

None

X. PUBLIC / MEMBER COMMENTS

MR. HIPPLER requested the Committee consider at a future meeting the possibility of returning a REIT option to the plan investments. CHAIR WILLIAMS agreed to add the item to the next agenda.

MS. LEA requested Trustees contact her with any questions or concerns regarding GMWB to ensure the future research will address relevant issues.

CHAIR WILLIAMS congratulated MS. LEA on her retirement in May.

MR. WEST expressed appreciation for the GMWB presentation and fully supports further investigation. He encouraged review of additional products that can be used as solutions to the diverse needs of participants, including products offered by Fidelity, the country's largest record keeper.

X1. ADJOURNMENT

MR. BRICE moved to adjourn the meeting. MR. WEST seconded the motion. The motion passed without objection.

The meeting was adjourned at 12:29 p.m.

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.