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

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

December 11, 2019

ATTENDANCE

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

Committee Absent: None

Other Trustees Present: Acting Commissioner Mike Barnhill

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)
Emily Ricci (Division of Retirement & Benefits)
Roberto Aceveda (Division of Retirement & Benefits)

Others Present: Stuart Goering (ARB legal council)
Tonya Manning (Buck)
Scott Young (Buck)
Liz Davidsen (Alaska Director, Empower)
Marybeth Daubensek (Empower)
Ben Lovitt (Empower)

Patrick Carter (J.P. Morgan)
Jeff Shields (J.P. Morgan)
Richard Ward (Segal public)
John Plowright (T.Rowe Price)

I. CALL TO ORDER

CHAIR BOB WILLIAMS called the meeting to order at 9:30 a.m.

II. ROLL CALL

Six 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. The motion was seconded. The agenda was approved without objection.

B. Approval of Minutes - September 18, 2019

MR. BRICE moved to approve the Minutes of September 18, 2019. MR. WEST seconded the motion. The Minutes of September 18, 2019 were approved without objection.

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

VI. TREASURY UPDATE

A. Monte Carlo Simulation Discussion

CHAIR WILLIAMS began the update with the Target Date Fund Simulation Exercise in the packet. He explained the Monte Carlo simulation model tests the likelihood that employees who have worked 30 years will have sufficient assets to last 30 years into retirement on 70% of their final income. One of the purposes of the model is to find ways to improve the likelihood. CHAIR WILLIAMS noted comments of concern from staff regarding the granularity of the information and if it is considered financial advice. CHAIR WILLIAMS does not agree this is considered financial advice. The decision was made to continue a deeper discussion and examination in this fashion.

CHAIR WILLIAMS requested BOB MITCHELL, Chief Investment Officer, describe the definition of success in the model. MR. MITCHELL explained the definition of success is an employee working 30 years and having a level of assets that support 70% of the employee's final income for 30 years into retirement. CHAIR WILLIAMS discussed the various scenarios examined, including PERS, TRS, Police/Fire, all with and without SBS and Deferred Comp. MR. MITCHELL described the assumptions used. The investment assumption was the target date fund glidepath or a similar investment allocation. The capital market assumptions were provided by Callan. Generally, the longer a participant works and the higher proportion of the participant's income that is allocated for retirement, the greater the chances of accumulating sufficient balances to support the goal of 70% of the employee's final income for 30 years into retirement. MR. MITCHELL noted the likelihood of reaching the retirement goal improves by contributing additional funds. The magnitude of the possible improvement impact can be tracked.

CHAIR WILLIAMS expressed appreciation for the work performed to conduct the study. He highlighted the uncertainty in the model's results based on future market returns. CHAIR WILLIAMS believes it serves the purpose of answering members' general questions regarding retirement amounts without promising results or giving financial advice.

ACTING COMMISSIONER BARNHILL believes the new normal is transitioning to a 40 to 45-year working career.

MR. WEST asked for the next steps regarding the model information and results. CHAIR WILLIAMS believes the results of this model and the previous two iterations reinforce the concept that longer periods of time working with higher percentages of deferred contributions will lead to more security. He feels this information can be shared with members who specifically ask, but he does not feel the need to share the information at-large.

COMMISSIONER TSHIBAKA relayed a question from a member asking why PERS and TRS cannot be joined systems. MR. MITCHELL noted he would need to seek legal council to provide a complete answer, but believes the two systems are well-defined trusts. The level of benefits is set by statute and would have to be addressed by the Legislature. There are current limits on the ability to participate in SBS.

CHAIR WILLIAMS commented on the increased chance of retirement success for those employees who are allowed to participate in SBS. A member explained the models are complicated. He believes SBS was intended to be a replacement to Social Security and some of the public employees who do not have access to SBS have access to Social Security. He feels the additional 2% legislative contribution for TRS is intended to assist because TRS does not have access to SBS or Social Security.

MR. BRICE believes it is important to understand the historical reasons behind the decisions that were made regarding SBS and Social Security. He noted some bargaining units made specific requests to be excluded from both SBS and Social Security in lieu of a pay raise. He feels it is prudent to remember the reasons those decisions were made.

CHAIR WILLIAMS expressed appreciation to MR. MITCHELL and Department of Revenue staff for spending time with him in discussion.

B. Potential REIT Option

MR. MITCHELL explained that before last summer, the portfolio contain a separate TIPS option and separate REIT option. Callan recommended the consideration of consolidating the TIPS and REIT options into one Real option. The ARMB agreed with Callan's recommendations and made the appropriate change. Participant comments of disappointment and regret that the discreet REIT option was removed were communicated to Trustees. In response, at the previous meeting, MR. HIPPLER requested staff evaluate the possibility of reinstating a standalone REIT option. Staff conducted a preliminary investigation and was notified the previous REIT option can be reinstated at an investment cost of about seven basis points of the investor's balance.

MR. MITCHELL believes Callan's general philosophical position remains the same regarding the maintenance of fewer investment options within a sufficiently broad suite and breadth of retirement investments. Should the Board decided to pursue the inclusion of a REIT option, staff would engage with the Commissioner of Department of Administration regarding the details of the option and would come back before the Board with a recommendation.

MR. WEST expressed support for the addition of a REIT option. This asset class is not available as a single selection within the menu of funds. He believes the participants feel more informed about real estate than any other asset class. MR. WEST noted he was not previously in favor or removing the REIT option.

CHAIR WILLIAMS requested Callan provide additional feedback and advice at the next meeting regarding the currently proposed REIT option and other REIT options. MR. JOHNSON agreed the Callan request was reasonable. He also suggested COMMISSIONER TSHIBAKA report of the beneficiaries' response to this process. There was no objection to that course of action.

C. Smart Spending Option

MR. MITCHELL explained discussions have been ongoing for years between DRB and Treasury regarding offering an investment option that provides a level of visibility of the amount retirees can spend in retirement. Evaluation included bond ladders, variable annuities, deferred annuities, and non-variable annuity products. Callan provided review of three non-variable annuity products and staff chose J.P. Morgan as the most developed and most suitable of the three firms. MR. MITCHELL requested PATRICK CARTER and JEFF SHIELDS of J.P. Morgan provide a brief presentation on the Smart Spending Funds program. MR. MITCHELL asked for members to offer direction to staff after the presentation.

MR. SHIELDS gave an overview of the firm and discussed his and MR. CARTER's professional background. He explained the Smart Spending Fund has been crafted over seven years and gives a solution to help balance the ongoing retirement income needs of defined contribution plan participants with the fiduciary duties of plan sponsors. MR. CARTER applauded the Committee for researching retirement income solutions that could have meaningful impacts on participants. MR. CARTER reviewed a Smart Spending scenario of a fictional participant. Smart Spending allows a participant who is at or near retirement to convert their participant-directed savings into lifetime income to help with their spending in retirement. This gives the individual a plan that includes confidence to spend in retirement and a prudent understanding of the limits to withdrawing in retirement.

MR. CARTER discussed four questions J.P. Morgan has found that relate to retirement age investors and the solutions provided by the Smart Spending Fund.

- How long will my money last?
- How easily can I access my money?

- How much can I spend each year?
- How much risk should I take?

MR. CARTER explained the Smart Spending Fund helps individuals draw down their money in a managed process and the funds are expected to last until the age of 100. The underlying investment in Smart Spending is a balanced mutual fund that is managed specifically to meet the risk of retirees who are going to spend down their assets. The access to funds and liquidity is easy and flexible. Each participant will be provided an annual range of their spend-down amount, such that sufficient assets are maintained in the portfolio to fund the remainder retirement purchasing power.

MR. CARTER noted the portfolio takes an appropriate level of risk for retirees who are drawing down their assets. Smart Spending is targeted to a particular set of circumstances for each retiree and is designed to meet the needs of individuals who foresee a partial principal drawdown in retirement or a total principal drawdown in retirement. It is not a tool for retirees who want to grow assets in retirement or who will not spend their retirement funds.

MR. CARTER informed hard copies of sample educational material on Smart Spending is available for members to review today, as well as available on the website. Smart Spending provides interactive tools for participants, including a retirement calculator, participant videos, and models illustrating sample spend-down amount scenarios. The intent is to partner with the retirees and give them more information to understand the implications of some of their decisions.

CHAIR WILLIAMS inquired as to the cost of the program. MR. CARTER stated the mutual fund today has an expense ratio of 40 basis points. He believes this fee is attractive compared to what is offered outside of the retirement plan system and there is a possibility the fee could change in a way that is favorable to participants.

A member asked for more information regarding required minimum distribution (RMD) rules. MR. CARTER noted the tool does not specifically address RMD amounts. The research has shown that in almost all instances, the spend-down amount will be greater than the RMD amount. In the rare event the spend-down amount is not greater than the RMD amount, Smart Spending will produce a notifying communication to the participant to review.

CHAIR WILLIAMS asked if there is a minimum investment amount. MR. CARTER explained participants can invest any amount into Smart Spending and the fund will generate the reasonably equal spend-down amount each year until age 100.

KATHY LEA, Chief Pension Officer, noted the participants currently have the option of periodic payments, which is reviewed with the licensed financial planner. It allows participants to take distributions of 4% or 5%, and is designed to last the participant's lifetime. Total liquidity is available through this option. Retirement spend-down calculators will be added to the Empower website within the next year to assist with planning. MS. LEA asked how Smart Spending is different than what is currently offered through the periodic payment option within the plan. MR. CARTER advised he does not know the details of the periodic payment option, but can provide observations. The underlying investment vehicle for the Smart Spending Fund is specifically designed to meet the specific risks faced by individuals that are drawing down assets out of their portfolio over time. The Smart Spending Fund takes into account the spend-down of the existing savings and the median spending amount of retirees. The Smart Spending Fund tools are unique to this product.

AJAY DESAI, Director DRB, asked if a tax implication occurs when participants transfer monies into the Smart Spending Fund. MR. CARTER explained the Smart Spending Fund would be within the plan alongside other balanced mutual fund offerings. There is no tax implication because this in an in-plan solution. It is not tied to a specific record keeper.

A request was made for additional information regarding the possibility of a participant annuitizing a portion of their retirement funds to a necessity level and utilizing the Smart Spending option to adjust additional spending. MR. CARTER agreed it is important for individuals to have some source of guaranteed or fixed income to cover the needs in life, including food and shelter. Typically, this will come from a defined benefit plan or Social Security. There are participants who may not have access to those sources. The Smart Spending vehicle currently does not provide a guaranteed income. J.P. Morgan is considering adding an annuity option to Smart Spending to provide a stable source of income.

MR. WEST commented Smart Spending is a liability-driven investment rather than an asset accumulation-driven investment. MR. CARTER agreed.

MR. BRICE inquired as to how long Smart Spending portfolio has been available. MR. CARTER informed the underlying portfolio of the Smart Spending Fund has a three-year track record, but the service began its user rollout in 2019.

CHAIR WILLIAMS expressed compelling interest in seeing further research and development for this product. He asked for the consensus of the Committee regarding feedback for MR. MITCHELL. The Committee requested staff to continue to investigate Smart Spending as a potential investment option.

VII. DIVISION OF RETIREMENT & BENEFITS UPDATE

A. Chief Pension Officer Report

MS. LEA reported the project plan for the automatic enrollment feature is being developed. Work is ongoing with the Department of Law identifying every statute and regulation that may have to be changed in order to implement an automatic enrollment. The Division of Personnel and Labor Relations are researching the status of requirements regarding possible union negotiations. Once responses are received, a timeline can be determined.

MS. LEA clarified the plan currently has an auto escalation feature. She explained this feature is different from what was described yesterday by Trustee GAYLE HARBO. The plan's auto escalation feature is available at the time the Deferred Comp contribution amount is established and provides the ability to determine an escalation of a dollar amount or a percentage amount at certain time periods. MS. LEA noted very few members are currently enrolled. Staff will participate in a strategic planning session with Empower later today and focus on communicating the auto escalation feature to members.

MS. LEA advised the plan documents have been amended regarding the employer matching contributions. This affects every participating employer that joins the Deferred Comp plan, with the exception of the State of Alaska. The publications for Deferred Comp are in final review of their update. The anticipated publish date is January 2020. Employer communication describing the opt-in option has been disseminated.

MS. LEA reported staff has been working on the vetting process of selecting Empower as a vendor for the Guaranteed Lifetime Withdrawal Benefit, if the Committee decides to pursue this spend-down benefit. MS. LEA clarified the Guaranteed Lifetime Withdrawal Benefit would occur only upon employee election, and not by default in the plan. The main investment behavioral patterns seen within the plan participants fall into three categories; the do-it-yourself investors, those who want help with investments, and those who want someone else to invest for them. The demographic for the Guaranteed Lifetime Withdrawal Benefit is the group who wants someone to invest for them and wants little or no interaction with the product. Compared to a straight annuity benefit, the Guaranteed Lifetime Withdrawal Benefit offers greater access to participant funds and the ability to leave funds to a beneficiary.

MS. LEA discussed the four bills in the Legislature affecting the pension plans. HB 11 places Alaska State Troopers into the DB PERS Tier III plan. Sponsoring Representative GEORGE RAUSCHER communicated to staff this bill has legal issues because it seeks to bifurcate the PERS statutory definition of peace officer, which also includes municipal peace officers, correctional officers, juvenile and adult probation officers. This bill will not pass the IRS test.

MS. LEA described SB 46 allows for a member to chose to participate in the DB or DC plan within 90 days of hire, and also allows for current DC members to chose to convert their assets to the DB plan. No hearings were conducted last session. No feedback has been received regarding hearings this session. SB 102 is a retirement incentive program similar to the retirement incentive program of 2000. State agencies will only be allowed to open a retirement incentive window if the Office of Management and Budget review shows a net savings for a five-year period. The retirement incentive program allows three years of credit to a member to meet either eligibility or additional service or a combination of both in order to retire.

MS. LEA noted HB 79 places all peace officers and fire fighters back into the PERS DB plan. The benefit structure is similar to Tier III. It contains some levers to address unfunded liability. It contains a conversion option for existing DC members. The bill will be amended to meet concerns brought forward by the Division, The Department of Law, and tax counsel. Sponsoring Representative CHUCK KOPP's office communicated to staff the amended bill is expected to be passed out of the House Finance Committee at the first meeting and scheduled for a House floor vote two weeks after. The Division has committed to conducting an actuarial study and a sensitivity study to be delivered to the Committee by session start.

MR. WEST inquired as to the expected increased annual cost of HB 79. MS. LEA explained HB 79 initially shows no cost using today's assumptions. The actuary calculates the initial costs using today's assumptions and projects those forward. There would be no change to other assumptions. However, over time, investments change and investments do not always return what their projected amounts. The additional sensitivity analysis from Buck will show differing investment return years and determine the success of the built-in levers to address the unfunded liability. MS. LEA informed she will prepare a response regarding the no-cost findings and provide it to the Committee.

B. Educational Outreach

ROBERTO ACEVEDA, DRB, DOA, informed the educational outreach report reviews the entire calendar year. The counseling team continues to transition seminars to videos. This provides employers the ability to access the open enrollment and new employee orientation online and on demand. Staff conducts member retirement readiness reviews through Empower. There is a new Empower staff member in Juneau, who conducts joint counseling sessions and seminars. The partnership and teamwork has proven to be outstanding. The individual coverage will increase due to additional employees.

MR. ACEVEDA reported individual walk-in surveys have been completed and are operational. Changes are imminent due to the OIT situation and the restrictions to the software that can be used for the surveys. The satisfaction level on the individual walk-ins and individual appointments for the counseling team is a 4.88 out of five satisfaction rate taken from 100 surveys. The restriction on travel will continue to be a challenge, especially in rural areas. Web-ex and prerecorded events will be provided to rural communities.

MR. ACEVEDA informed additional political subdivisions will be included through the marketing of the State 457 Plan. There are currently 12 employers in the 457 Plan and three more employers who are undergoing the implementation process. After the process is complete, there will be a total of five school districts within the 457 Plan. MR. ACEVEDA outlined the 2019 outreach activity, which is in addition to Empower outreach;

- 64 events, employer requests, Web-ex, seminars
- 1,359 participants
- 6,088 counseling appointments and walk-ins

(Audio End 11:05 a.m.)

C. Empower Update

D. Brokerage Window Options at Empower

PowerPoint provided.

E. Defined Contribution Example

VIII. Calendar Review

Calendar provided.

IX. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

KEVIN WORLEY, Chief Financial Officer, DRB, will provide a TRS example for the Trustees, as was provided for PERS.

X. PUBLIC / MEMBER COMMENTS

X1. ADJOURNMENT

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

The meeting was adjourned at 12:02 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.