

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

**Videoconference**

**MINUTES OF**  
**June 17, 2020**

**Wednesday, June 17, 2020**

**ATTENDANCE**

**Committee Present:** Bob Williams, *Chair*  
Tom Brice  
Allen Hippler  
Rob Johnson  
Norm West

**Committee Absent:** None

**Other Trustees Present:** Lorne Bretz

**Investment Advisory Council Members Present:** Dr. William Jennings

**Department of Revenue Staff Present:**

Bob Mitchell, Chief Investment Officer  
Zachary Hanna, Deputy Chief Investment Officer  
Scott Jones, Chief Investment Officer  
Stephanie Alexander, Board Liaison  
Mike Barnhill, Deputy Commissioner  
Michelle Prebula  
Grant Ficek

**Department of Administration Staff Present:**

Kevin Worley, CFO, Division of Retirement and Benefits  
Ajay Desai, Director, Division of Retirement and Benefits  
James Puckett, Deputy Director, Division of Retirement and Benefits  
Roberto Aceveda, Counseling and Education Manager, Division of Retirement and Benefits

**Others Present:**

Stuart Goering, AAG, Department of Law  
Kevin Dilg, AAG, Department of Law  
Paul Erlendson, Callan LLC

Steve Center, Callan LLC  
Liz Davidsen, Empower  
Marybeth Daubespeck, Empower  
Jeff Shields, J. P. Morgan  
Patrick Carter, J. P. Morgan

## **I. CALL TO ORDER**

CHAIR BOB WILLIAMS called the meeting of the ARM Board Defined Contribution Plan Committee to order at 9:30 a.m.

## **II. ROLL CALL**

CHAIR WILLIAMS, MR. BRICE, MR. HIPPLER, MR. JOHNSON, and MR. WEST were present at roll call.

## **III. PUBLIC MEETING NOTICE**

STEPHANIE ALEXANDER confirmed that 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 agenda was approved without objection.

## **B. APPROVAL OF MINUTES: April 30, 2020**

MR. BRICE moved to approve the minutes of the April 30, 2020 meeting. MR. WEST seconded the motion. The minutes were approved without objection.

## **V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.**

## **VI. DRB UPDATES**

### **A. Chief Pension Officer Report**

Chief Pension Officer JIM PUCKETT said he is happy to be here as a new member on the team, commenting that he had served for eight and a half years in DRB as deputy director and chief operations officer, and though no one can replace KATHY LEA, he will do the best he can as her successor.

MR. PUCKETT reported that the division rolled out an early distribution program on June 3<sup>rd</sup> under the CARES Act, with distributions limited to either 25 percent of their balance or \$25,000, whichever is less. He said there was clearly some pent-up demand, because in the past nine business days, they had responded to hundreds of people, and had already distributed through Empower close to \$2 million to 142 qualified members as of the night before this meeting. MR. PUCKETT said he feels sad to see that much money going out early, but there are provisions for those people to repay that over the next three years. CHAIR WILLIAMS asked how much of an application is involved, and clarified that it is just the ability to pull funds from retirement funds before actually retiring; MR. PUCKETT said yes, it's called an early distribution, and usually there would be a 10 percent penalty and tax consequences, but this has no penalty and the tax consequences can be taken care of over the

next three years. He said the deadline for this opportunity is December of 2020, and it is not from the PERS or TRS, only from those that have an SBS account or a deferred compensation account.

MR. PUCKETT complimented BOB MITCHELL and MICHELLE PREBULA with Treasury for spending a lot of time and energy to bring him up to speed on one of the options that the committee would be considering later, SmartSpending. He said that since he hit the ground running in his new position, he would request that the brokerage option to be considered later in this meeting be deferred because he hasn't had time to examine that topic.

MR. PUCKETT introduced KEVIN DILG, legal counsel for the DRB, to give an executive briefing on some of the statutory authority regarding the distribution options that might be made available to their membership.

MR. BRICE welcomed MR. PUCKETT back, commenting that he worked with him when he first came on the Board and really appreciated his dedication to the program and to the beneficiaries and his insight and work in the past.

KEVIN DILG, Assistant Attorney General, said that he was there to answer questions about the interplay of authority between the ARM Board and the Division of Retirement and Benefits in regard to distribution investment options. He said that on the most basic level, under the PERS statutes, the DRB was the delegee of the commissioner and had the duty and the authority to create distribution options. He explained that the statute has six options, and a seventh was added by legislation requested by the DRB and the commissioner's office in 2018 to allow additional payment authority or distribution options as authorized by regulation. He said that currently the regulation doesn't have anything beyond what is in the statute, but new investment and distribution options have cropped up, so they needed more flexibility. He said there have been questions about what appear to be hybrid options, which may need to be dealt with in conjunction between the ARM Board and the Division.

CIO BOB MITCHELL commented that he wanted to create awareness about a distinction between investments and annuities, which may be an issue because annuity options available after retirement are not in-plan options, and the ARM Board only has authority over funds that are in the trust. He said from conversations with MR. GOERING, his understanding was that it may not be clear as to whether the ARM Board has the statutory authority to provide in-plan annuities or investment options that contain annuities. MR. DILG said they'd have to look at those options and how they would function to be able to comment more specifically.

CHAIR WILLIAMS clarified that MR. PUCKETT was talking about the CARES Act COVID-19 response which allows members to pull money out of their deferred compensation before retirement. He reviewed that the committee had discussed offering a brokerage window, and have had public testimony about retirees wanting to be able to choose which fund they withdraw from when they pull money from their accounts. He said they've also looked at trying to make more guaranteed income options available to DC members, and considered SecureFoundation at the last meeting. CHAIR WILLIAMS said he believes this question of whether something is an investment or an annuity falls more in line with the discussion of the SecureFoundation option, about which he heard there was a legal question. He asked if that legal question had been resolved, and if so, how. MR. DILG

answered that his comments were broader and more towards SecureFoundation. He said he hadn't had a particular legal question presented to him other than generally who has the authority and where it ends. He said he's not sure if in-plan annuity products would count as a distribution or an investment option, but he leans toward it being an investment option because the division's authority begins upon termination of participation in the plan. He said that people who terminate from service, depending on their criteria, can get a full liquidation of their plan 60 days after termination, and they can take that money or move it onto the retirement track if they meet the criteria.

MR. JOHNSON said that by the ARM Board statutes, the ARM Board has no involvement after someone has moved their money out, unless that distribution included the opportunity to pick among a variety of annuities at the moment of that distribution. However, he said that if they recommend certain annuities, that sounds like it would fall in the range of investment options, and the Board would have an involvement. He said it would be nice to have an assessment of where the bright line of the ARM Board's involvement either continues or ends. MR. DILG said that clearly, distribution options after quitting service would be governed by the DRB and the DOA, but if someone had the ability while still employed to pick something that is a hybrid or would allow them to purchase some kind of annuity while still in the plan and providing contributions, that would fall more into an investment. MR. JOHNSON concurred that annuities would be an investment option, and he said it needs to be assessed. CHAIR WILLIAMS said that getting a little more clarity about where the line is ought to be an agenda item for the next meeting, and MR. DILG said that could be accomplished.

## **1. Distribution Discussion**

### **B. Legislation Updates**

MR. PUCKETT said that there had been no new legislative requests since the last meeting.

### **C. Empower Update**

#### **1. Fund Withdrawals Response**

LIZ DAVIDSEN responded to some feedback from a participant about wanting to take a withdrawal from only one investment option. She said they met with the participant for over an hour to discuss their needs and what they were looking for, and Empower does have an available process for participants to take a withdrawal from just one investment option instead of distributed equally from their various investments. She said there is a form for that, and Empower is working on simplifying their forms in general, but they also have a process through their call center where their associate will guide a participant through the completion of the paperwork.

MS. DAUBESPECK added that they are always deciding where to invest in development, and if they see the desire for a certain type of tool, they work on developing it. CHAIR WILLIAMS commented that there is a balance between convenience and how many people use something, and asked if it would take a lot of investment or time to make it simpler; MS. DAUBESPECK answered that they would put it on the map for system development, but in the meantime she would recommend the guided experience.

MS. DAVIDSEN said that she and ROBERTO ACEVEDA met with the Sitka School District, and the district had been under the impression that there was a time when they could and could not enroll,

but in fact the 457 plan is open all year long. She said they got the resources to that school district representative, and she thanked the committee for that lead.

MS. DAVIDSEN said that she and ROBERTO have been working to get everything out to employers, and instead of the employer conference they usually have every other year, this year they have to take a different approach because of COVID-19. She mentioned that Empower needs a letter of endorsement from the DC Committee and the ARM Board to send with those materials. CHAIR WILLIAMS asked a question about districts that have other Empower 457 plans that aren't with the State of Alaska, and said he doesn't think they should have to market these plans so much; people should be coming to them because it's something that people need. He said he had talked with CHAIR JOHNSON about it, and he wants to learn more about districts that seem to be putting in the legwork, and if they are choosing something else, what it is. MS. DAVIDSEN said districts look at fees from an administrative standpoint and an investment standpoint, and at the features of a plan, and they may get lower fees if they have a combined plan with a 403(b). She said she would look into it further.

## **2. COVID-19 Operations Update**

MARYBETH DAUBESPECK discussed a new regulation in the industry called Regulation Best Interest, which is effective June 30<sup>th</sup>, 2020, and covers all investment recommendations made to participants in plans like a 457 plan. She said advice has always been a key component of Empower's offerings, and it is critical because their mission is to help people achieve their retirement goals. Reg BI, as it's called, will require broker/dealers and their registered representatives to act in the best interests of plan participants when recommending securities and investment strategies. MS. DAUBESPECK said they already operate with their customers' best interests in mind, so the launch of Reg BI requires only minor adjustments to their offerings. They are going to provide further clarity on recommendations versus education, improve some of the tools used to support the advice they provide, enhance their customer engagement and conversation level, and provide additional disclosures to ensure that customers understand Empower's role and how Empower can help them meet their financial goals. She added that in Alaska, over the past month they have been training all of their associates, including retirement plan advisors, on Reg BI and how they need to interact to meet its requirements, so they will be prepared for June 30<sup>th</sup>.

## **VII. TREASURY UPDATE**

### **A. U.S. Equities Trust Investment Guidelines**

MICHELLE PREBULA said the target date funds consist of underlying building block funds, one of which is the U.S. Equity Fund which is benchmarked to the Russell 3000. She said that there is a limitation in the current guidelines that says no more than 5 percent of the trust may be invested in any one issuer, but over the last few months Microsoft had exceeded that threshold at least three times, so that limitation is keeping the manager from being able to mirror the index. Therefore, they have requested that the 5 percent limitation be removed, which would still keep a limitation within the fund of within 60 basis points of the issuer's weight in the index.

MS. PREBULA said staff's recommendation is that the Defined Contribution Committee recommends the ARM Board direct staff to direct T. Rowe Price to modify the investment guidelines for the U.S. Equity Trust, as indicated in the attached red-lined document. MR. HIPPLER so moved.

MR. BRICE seconded the motion.

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

### **B. SmartSpending Option Presentation**

MS. PREBULA said that for several years, the DRB and the Treasury have been working together to identify some retiree income solutions for the ARM Board. She said they believe J.P. Morgan's SmartSpending option does the best of what is available in the industry to meet the criteria of reliable and forecasted monthly distributions and the option for survivor benefits. It is relatively cost-effective, allows for significant withdrawal flexibility, minimizes counterparty risk, and is customizable to meet participant-specific needs. MS. PREBULA introduced PAT CARTER and JEFF SHIELDS from J.P. Morgan.

MR. CARTER said he appreciated the opportunity to be at the meeting, and he complimented the committee for looking into retirement income solutions, which is a service that is needed in many plans and can have a meaningful positive impact on retirees' lives. MR. CARTER specifically thanked BOB MITCHELL, MICHELLE PREBULA, JIM PUCKETT, and ROBERTO ACEVEDA for working with them over past months as they've talked through this particular solution.

MR. SHIELDS thanked the ARM Board for its long-term relationship with J.P. Morgan, dating to 1984. He explained that the defined contribution business is a key part of their growth and a significant part of their business, with just over \$188 billion under management across a variety of strategies, \$100 billion of which is in target date funds. He said J.P. Morgan's capabilities are defined by how they marry a deep effort to understand participant behaviors with an institutional investment management capability, all designed to help people retire more comfortably. He said their commitment to research on participant behaviors has produced a lot of data, and they share that with clients like the ARM Board to help them make more informed decisions to improve participant outcomes. He said their research had informed and guided one of their more innovative products, SmartSpending. MR. SHIELDS said that PAT CARTER's expertise is in defined contribution, with 25 years of experience, and has been part of the leadership team in creating strategies and products for decumulation.

MR. CARTER said that SmartSpending is an in-plan solution, so participants' assets stay within the plan until they are withdrawn over time. From a fiduciary perspective, he said it is pretty straightforward and solid, with the investment vehicle being a balanced fund, a daily liquid vehicle that is offered to participants.

MR. CARTER said that only 40 percent of retirees feel confident that they know how to adjust their investments for retirement, so 60 percent don't; also, only a third feel like they understand how much retirement income their balances will generate. However, this audience is receptive to help, and would be likely to engage with a service that would help them understand how to prudently spend down their assets through retirement.

MR. CARTER explained that J.P. Morgan built SmartSpending from scratch, starting by talking with retirees to ask about their challenges and thoughts about retirement income. Four questions came up

over and over which a viable retirement income service needs to respond to, and he said SmartSpending does. People want to know how long their money will last, how easily they can access it, how much they can spend each year, and how much risk they should take. He said an important point about how they manage the portfolio is that it addresses the needs of retirees that are going to spend down their assets during retirement, as opposed to living off of interest and dividends. He reviewed some of J.P. Morgan's macro research on spending curves, and said they want to provide higher sample spend-down amounts in the earlier years of retirement when people want to travel and do things. The samples incorporate this spending curve, not holding back too much money for the later years in life when spending needs may not be as high.

MR. CARTER then went through how the service works using a fictional character, showing its various features and how a participant can use the information to make better decisions for their particular circumstances. He showed how their illustrator works to model how a person's savings might translate into annual retirement income, like how much they need to put in to be able to have a certain annual income in retirement, and how much their annual income would be based on what they currently have. People can model making a big withdrawal for an event like a daughter's wedding and see how that will affect their balance and spend-down amounts in the future. MR. CARTER noted that the site would have to be customized for Alaska to have the particular instructions needed for participants to take action.

MR. CARTER said one question they always get is about the amounts that they've been able to produce from a sample spend-down amount, and he said that their algorithms keep things on track with expectations so they are confident that they are able to deliver what they are presenting with SmartSpending. He commented that the portfolio management team that manages this fund is very experienced and capable, with five people on the team supported by and surrounded by the very significant capability of J.P. Morgan's Multi-Asset Solutions unit, which consists of over 80 professionals. He said that in a Morningstar review of target date funds, only two received the highest rating, and one of those was managed by this same team. He noted that many of the processes, people, and support are the same as for SmartRetirement, their target date fund suite. MR. CARTER thanked the committee for considering this solution, and said the company will continue to build the digital and educational components of the service.

MS. PREBULA asked them to discuss the participation of other sponsors in this product; MR. CARTER said that the ARM Board would be the first. He said it has three and a half years of track record since the investment vehicle has existed, and they have significant interest from other clients, but so far no others are using the service.

MS. PREBULA asked him to describe the use of vintages in the product and how they are set up; MR. CARTER said that they would launch a new SmartSpending fund every five years, because in this type of approach of spending down the assets, they need to start fresh every few years so the people investing are on the appropriate track.

MS. PREBULA asked how the tool would handle survivor benefits; MR. CARTER said that the participant's assets remain in the plan, so any money that is left in the fund when the participant passes away would flow to the beneficiaries that they have designated for their Defined Contribution Plan

balances.

MS. PREBULA asked whether this is appropriate to use for current employees; MR. CARTER said that for those who are reaching retirement age, it is appropriate, because in this portfolio they are quicker to de-risk to protect against sequence-of-return risk, which is a downdraft in an account balance in those years just before and after retirement.

MS. PREBULA asked him to discuss fees and the potential use of a commingled fund; he said there is no fee for the illustrator and informational material, but there is an expense within the SmartSpending fund of 29 basis points. He said that as the service expands and more clients come to it, they expect to launch a collective trust version of SmartSpending, which is currently targeted at 19 basis points.

CHAIR WILLIAMS asked what the key advantage would be of rolling everything into SmartSpending, or what an investor would get that they wouldn't get from a target date fund; MR. CARTER pointed out the illustrator that produces the sample spend-down amounts that an investor can have confidence in, and said this is a somewhat different strategy that may be more appropriate for certain people's particular circumstances and objectives.

MS. PREBULA read the action recommendation: "The Defined Contribution Committee recommends the Alaska Retirement Management Board direct staff to contract with J.P. Morgan to offer one or more SmartSpending funds in the Alaska Supplemental Annuity Plan, the Defined Contribution Retirement Plans, and the Deferred Compensation Plan, subject to successful contract negotiations." MR. BRICE so moved. MR. WEST seconded the motion.

MR. JOHNSON asked whether the Department of Administration and the Department of Revenue concur with this plan and all due deliberation has been done; MS. PREBULA replied yes, and MR. PUCKETT stated that they also concur. MR. HIPPLER asked whether the union has had any comments or been involved in the review of this idea; CHAIR WILLIAMS and MS. PREBULA said they did not believe so. MR. BRICE commented that as representatives of the bargaining units of the state, the PERS and TRS representatives carry that responsibility, and that is why they have a seat on the Board. CIO BOB MITCHELL said that to his knowledge, staff had not talked to the unions regarding this potential investment option, but there is a statutory requirement that the Commissioner of the Department of Administration, as the plan administrator, be consulted before the ARM Board considers any investment options such as this, and that had happened.

CHAIR WILLIAMS comments that this decision has been before the committee for a long time, trying to come forward with options for a more secure or guaranteed retirement, and though the option presented at the previous meeting wasn't quite what they wanted, the committee wanted to do something sooner rather than later, which is why this option is being presented.

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

CHAIR WILLIAMS asked if there was any response to the question about HRA interest that he had forwarded to MS. ALEXANDER, and MR. WORLEY replied that he and CIO MITCHELL think it



would better serve the committee if they address it as a full item at a subsequent meeting.

**VIII. CALENDAR REVIEW**

MS. ALEXANDER said there were no updates to the calendar, and said she would add the HRA question to the agenda for the next meeting. She said that the decision of whether the next meeting would be virtual or not would be made when the time is closer.

**IX. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE – None.**

**X. PUBLIC/MEMBER COMMENTS – None.**

**XI. ADJOURNMENT**

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

The meeting was adjourned at 11:21 a.m.

**ATTEST:**

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Corporate Secretary

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