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

Videoconference

MINUTES OF
December 2, 2020

Wednesday, December 2, 2020

ATTENDANCE

Committee Present:	Bob Williams, *Chair* Allen Hippler Rob Johnson Michael Collins Dennis Moen
Committee Absent:	None
Other Trustees Present:	Lorne Bretz

Investment Advisory Council Members Present: Dr. William Jennings

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Michelle Prebula, Public Equity & DC Investment Officer
Mike Barnhill, Deputy Commissioner
Pamela Leary, Director, Treasury Division
Kayla Wisner, State Comptroller
Sean Howard, Portfolio Manager Alternatives
Ryan Kauzlarich, Accountant V
Grant Ficek, Business Analyst
Brian Fechter, Administrative Services Director
Alysia Jones, Board Liaison

Department of Administration Staff Present:
James Puckett, Deputy Director, Division of Retirement and Benefits
Kevin Worley, CFO, Division of Retirement and Benefits
Ajay Desai, Director, Division of Retirement and Benefits
Roberto Aceveda, Counseling and Education Manager, Division of Retirement and Benefits
Melinda Voigt, Retirement Operations Manager, Division of Retirement and Benefits

ARMB Legal Counsel Present:
Stuart Goering, AAG, Department of Law

Others Present:
Liz Davidsen, Empower
Marybeth Daubespeck, Empower
Paul Erlendson, Callan LLC
Steve Center, Callan LLC
James Krall, Public
Tom Klaameyer, Public

I. CALL TO ORDER

CHAIR WILLIAMS called the meeting of the ARM Board Defined Contribution Plan Committee to order at 10:00 a.m.

II. ROLL CALL

MR. COLLINS, MR. HIPPLER, MR. JOHNSON, MR. MOEN, and CHAIR WILLIAMS were present at roll call.

III. PUBLIC MEETING NOTICE

MS. JONES confirmed that public meeting notice requirements had been met.

IV. A. APPROVAL OF AGENDA

<u>MR. HIPPLER moved to approve the agenda.</u> <u>MR. JOHNSON seconded the motion.</u> The agenda was approved without objection.

B. APPROVAL OF MINUTES: September 16, 2020

<u>MR. JOHNSON moved to approve the minutes of the September 16, 2020 meeting.</u> <u>MR. HIPPLER seconded the motion.</u> The minutes were approved without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES

JAMES KRALL said that he was a 10-year schoolteacher in the Fairbanks Northstar Borough School District, that he taught economics and other things related to government, humanities, and social studies at a small Native charter school. He said he was aware of the forces related to federal interest rates, bonds and that over half of America's businesses were teetering at a triple-B bond rating and ready to fall off the edge with the next downgrade and would no longer be carried in investment portfolios.

MR. KRALL said that he had a meager retirement and was extremely concerned with the $24 trillion federal debt and that in the next 10 years, the purchasing power towards his retirement was going to go backwards. He said he had been looking at his options and was concerned that they were very conservative and was concerned that he would never be able to retire.

MR. KRALL stated that Goldman Sachs and a number of other heavyweight institutions had said, "You're used to 6 to 7 percent in returns on your investment portfolios. He said they can expect between 2 and 3 for the next decade."

MR. KRALL said that he was looking to get it out of dollar-denominated securities and has moved a lot into other places. He asked if he could get one thing from the Board for Christmas this year, it would be a choice to put his retirement into something that was not dollar-denominated, or if it has to be dollar-denominated, then a "diversified bucket of precious metals stocks" would be his choice. He said that he would like to see the Board make it possible for him to be able to put his money into a Grayscale Bitcoin Trust as a possible way to allocate and he wanted a bucket of diversified precious metals. He said he had to hide his money as best he could.

TOM KLAAMEYER said he was a social studies teacher from Eagle River and was recently elected to the position of NEA-Alaska president, and that his predecessor, Tim Parker, regularly testified before the committee on behalf of educators across the state regarding the concerns of PERS IV and TRS III members, who were also enrolled in Social Security, about their ability to achieve a secure retirement.

MR. KLAAMEYER stated that many educators who start teaching later in their career were shocked to learn that by teaching in Alaska, they could be subjecting their earned Social Security benefits to the federal GPO (Government Pension Offset) penalty. He pointed out that the committee had been working to provide DC members with more information about the details of the interest earned on their HRA's and that the members were excited and interested to learn about the opportunity of the brokerage window to offer more direct access in actively managing their retirement funds.

MR. KLAAMEYER said that he appreciated the efforts that the Board was doing to get more of the local associations involved and more of the districts and members involved in the Deferred Compensation Plan that the state was offering. He said improving retirement security was a top priority of the educators.

VI. TREASURY UPDATE

MR. HANNA said that in terms of this year's initiatives, we're going to be doing a review of the T. Rowe target date funds with the focus on asset class offerings, the glide path, and cost. He said with regard to the asset class offerings, T. Rowe had a number of additional asset classes they offered in other target date products that they would be evaluating for potential inclusion. He said they would be evaluating the glide path to determine if having one glide path for all of the plans was optimal. Regarding cost, he said when they first implemented the target date funds, they were cost leaders by a wide margin, but it was time to revisit this and do some combination of decreasing costs and/or adding some higher value-added asset classes. He said that would be the major initiative that they would be undertaking next year.

CHAIR WILLIAMS said that he was aware that with some of the options, they negotiate on what fees are, and that they have seen a pattern over the years where there was an ability to reduce those fees. He said that a target date fund goes on for a long time and we're locked into it. But, if for some reason, it turns out the fees were excessive or something was more competitive, was there the capacity to switch to somebody else? He also asked if being an institutional investor would afford the opportunity to lower the fees charged or get higher quality for the fees we're paying? MR. HANNA said that all of the things mentioned were their intention to explore. He said that they had a lot of scale in this plan, and with that scale comes a high degree of negotiating leverage. He said that there were pros and cons with that sort of approach, if they continued to implement a fairly passive set of investment options, that would go towards driving that cost lower than it currently was. He said he thought in this environment there may be an asset class that might be useful to include in the mix, and some were potentially more expensive options, which was part of the reason they were not included initially. He said they were looking to fully evaluate what the best path was and with that evaluation, bring it back to the DC Committee and probably take it in different rounds in terms of having a discussion with the committee and potentially the Board in terms of where they want to go. He said ultimately, he thought they had strong negotiating leverage and intends to use it to put together the best package of options for the participants.

MS. PREBULA said that she had looked at her notes about when they had negotiated fees for the DC funds, and found that every fund they had, with the exception of three funds, have renegotiated to a lower fee in the last three years, most of them more recent than that. She said of the three that had not been negotiated, one was a money market fund that was not up for negotiation, one was the Russell 3000, which was for 1 basis point, and the others were the target date funds.

CHAIR WILLIAMS asked if the target date funds were due for renegotiation at certain times or was that an issue that they had to bring up; MS. PREBULA stated that they bring it up with some regularity but it had not been anything that they budged on.

MS. PREBULA said that in regard to J.P. Morgan SmartSpending, they were looking at a January 5th implementation which is subject to a successful contract negotiation. She also noted that they recently renegotiated the SSGA World ex-U.S. mandate to reduce the management fees from 6 basis points to 3.5 basis points. She said with the Stable Value contract, they were working on implementing the cash fund authorization. The contract was complete, but there were a few things to work out with the custodian that they were working on.

MS. PREBULA stated that they had reduced the wrap fees for the MassMutual wrap providers by 1 basis point, so the wrap fees for that have gone down. She said that she thinks in the last two to three years they have gone down from 21 basis points to16.3. She said they also implemented a fee reduction for the ESG fund from 8 basis points to 5 basis points, retroactive to October of 2019.

MS. PREBULA said they had two PM transitions, one for the SSGA money market fund; the portfolio manager left in July of 2020 and, for T. Rowe Price's cash building block for the target date funds and the balance funds, their portfolio manager will be leaving in January of 2021. She said that the PM that was left on the SSGA money market account was a co-PM, and they have put another PM in place. She reported that it was a very conservative fund that invested almost exclusively in Treasuries, for that reason it was not viewed as a high-risk event for that PM to leave. She said similarly, in the T. Rowe transition, on March 1st the new PM became a co-PM and the prior PM would not be leaving until January. She said there were no changes to the fund expected, and no problems were anticipated.

CHAIR WILLIAMS asked if it was accurate to say that with the other defined benefit investments on the watch list, that there was the same level of scrutiny on the DC side to make sure that there were things in place to make it work, so there was not a move to divest or make a change based on that. MS. PREBULA stated that it was fully accurate and when she does the watch list review, she does it for both DB and DC together.

MR. JOHNSON asked when they engaged in discussions regarding lowering fees with the managers of the DC Plans, who within the state's hierarchy was involved in that. MR. HANNA said for the investment options, it was the Treasury unit and that T. Rowe was a project that MS. PREBULA and he would be embarking on together.

VII. DIVISION OR RETIREMENT & BENEFITS UPDATE

A. Chief Pension Officer Report

MR. PUCKETT reported that the Division hired Mindy Voigt as the replacement for the retirement operations manager. He said that Mindy had been part of the Division for 21 years and started as a Retirement and Benefit Tech I and worked up through that series and then went to the retirement specialist series. He said she had been a counselor, and she had also served as an IT liaison. He said that she was currently involved in the IT modernization project.

MR. PUCKETT said that they had heard through the grapevine recently that HB79 -- a bill that was introduced last session to put the police and fire back into a DB defined benefit tier -- would be reintroduced in this coming session. He said he would keep the ARM Board abreast of that development.

CHAIR WILLIAMS asked how big of a project is the IT modernization and what was being modernized. MR. PUCKETT said that the current benefit program platform is being modernized. It was installed in 1996 and was not the state-of-the-art technology back then. He said the Division went with it because the price was very reasonable, but it was hard to find anyone who was trained to do the programming now days due to its age.

MR. PUCKETT said that they were going with a company called Sagitec; they offer a product that will not go out of date. He said it contains modules that can be replaced as technology changes. He said the project is scheduled to be completed in 2023.

B. Educational Outreach

MR. ACEVEDA said that in FY20 they had 4,277 calls that were received in Juneau and fielded by the counseling staff. He said this year through October, they had fielded 4,649 calls. He said last fiscal year, Anchorage received 2,877 calls and this year they had already received 2,217. He said the summation of last year, was 7,154, and the total for this year, for only three months, was 6,866. He said the average for last year was 596 calls per month and the average number of calls for the past three months was 1,716 per month, so the workload and the amount of work that has been redirected to do telephonic instead of the general in-person appointments had gone up drastically.

MR. ACEVEDA stated that the number of appointments last year for Juneau was 1,413 appointments for the entire year and this year the number was at 903. He said in Anchorage there were 1,905 for last year, and for FY21, they were at 549. The total appointments for FY20 was 3,318, and the total appointments for the last three months have been up about 1,452.

CHAIR WILLIAMS said that it appears that the monthly rates for counseling services and for appointments were dramatically higher. He asked if they had seen a dramatic shift in the number of people that were retiring? He also asked if more people were retiring because there was a pandemic, or were interested in it, or what changes was he seeing; MR. ACEVEDA stated that in general, there was an increase in the ability to retire, and so a lot of people were calling in wanting to look at their projections. He said they wanted to make sure their information was correct, so they wanted to go talk with a counselor to verify that what they had seen on their annual benefit statements was correct.

MR. ACEVEDA also said that the other increase was that they have implemented the CARES Act distributions, which was a major driving factor in a number of calls that had been received. He said it added a dramatic increase to the workload.

CHAIR WILLIAMS said that it appears that there was not a dramatic increase in the people retiring, but that more people were checking to see what their status was regarding their ability to retire.

MR. ACEVEDA said that one of the questions that came to the Division was eligibility for retirement and medical benefits. He said in order to pay medical benefits under Alaska Statute 39.35.880, which is also the same statute for PERS and TRS DCR, an active member must retire directly from the plan. He said a member would be eligible to retire from the plan if the member had been an active member for at least 12 months before application for retirement, and the member had at least 25 years of membership service as a peace officer or fire fighter or at least 30 years of membership service for all other employees, or the member reached normal retirement age and had at least 10 years of membership service.

CHAIR WILLIAMS said that he had members ask about teachers, who do not have Social Security but taught for 30 years, if they can take retirement after 30 years even if they were not Medicare eligible and if they can access HRA funds at 52; MR. ACEVEDA stated that they can access the medical once they reach the age of eligibility, 25 years for police officers, 30 years of membership service. He said with the HRA, the only difference was that they did not have to retire directly from the plan, but they still had to meet the Medicare age eligibility unless they retired directly from the plan, which was the 25 or 30 and out. So, if they retired early, they do not have access to that, or if they leave, they terminate early. He said retirement has a different definition with the Defined

Contribution Retirement Plan as opposed to the Defined Benefit.

MR. PUCKETT said that the CARES ACT early distribution program close-out date would be December 21st, a notification was put on the website. He said shortly after Christmas they would be providing the final numbers as to how many people had been served, and how much money was distributed.

C. Recordkeeping Discussion

MR. WORLEY referred the Board to the small flow chart that discussed fee collection on page 10 of 25 of the PDFs. He explained that the fees collected for the PERS, TRS, and SBS plans was currently 11 basis points. He explained that within the contract on January 1, 2019, the basis points that go to the recordkeeper which was Empower, dropped from 7 to 5.5. He said of the total fees collected, which was 11 basis points for PERS, TRS, and SBS, 5.5, or one half of those fees collected go to Empower. He said the remaining 5.5 of the total 11 basis points charged to PERS, TRS, and SBS members were split between the Department of Revenue and the Department of Administration Division of Retirement and Benefits for the investments and for the administration of those plans.

MR. WORLEY said that it was not a 50/50 split, they did not take the 5.5 basis points, it was collected and allocated out. He said the Department of Revenue had their plan on how they allocated costs across all the plans that they invested for. He said the Department of Administration Division of Retirement and Benefit had their own cost allocation plan. He said these were run through the Division of Finance, who had the state cost allocation plan.

MR. WORLEY stated that based on the cost allocation plans, they charged each of the funds by getting budget authority through the legislative process.

CHAIR WILLIAMS asked if there were any changes in service in 2019 when it was renegotiated from 7 to 5.5 basis points or was that only a renegotiation of the fees of what Empower did and if that changed the amount that was going from PERS, TRS and SBS, or did that increase the share that was going to the Department of Revenue and the Department of Administration; MR. WORLEY said that he did not believe there was a decrease in service, only a decrease in the fees that the membership paid. He said the reduction that Empower gave them in the 2019 contract resulted in Empower receiving fewer basis points.

CHAIR WILLIAMS stated that if he had concerns it was that they were able to negotiate something that reduced the fees for the plans down from 7 basis points to 5.5, which resulted in a reduction to the plans of 1.5 basis points, but none of that ended up in a reduction to what the members had paid in fees. He said that he thought there should be a focus on reducing what some of the fees were to the overall members.

MR. WORLEY said that he agreed but at the same time it was important to look at the budget. He said that there were reports that could be done further down the line just to give the committee an overview of what was done with the fees that were collected or what the allocation was. He said currently they were at a 50/50 allocation on three of the funds.

MR. WORLEY explained that within SBS, PERS, and TRS, they had two fees, one was an annual fixed fee. He said there was a $25 and $10 charge that was the annual charge to a member's account, and then they had the asset-based fee, which was the 11 basis points. Deferred Comp did not have an annual fixed fee, but their basis points are higher at 17 points. He said of the 17 for Deferred Comp, 5.5 still goes to Empower, and 11.5 goes to the plan for administration through the Department of Revenue and Department of Administration.

MR. WORLEY said that for the fees for PERS DCR, $2.7 million was collected, and $889,000 for the TRS DCR plan. He said that within this allocation to PERS and TRS, were DOR wages and contractual services other than Empower. He said these were expenses that were charged directly to the plan from the Department of Revenue. He said there was a total of $357,000 for PERS, $174,000 for TRS.

MR. WORLEY said that there were administrative expense for the Division. He said wages for DRB were $1.4 million and $371 ,000. He said there were recordkeeping fees or the 5.5 basis points coming out of PERS and TRS, SBS, QDRO fees which were costs that the plans incurred in the event of a divorce where assets are split by the member to the member's ex-spouse. He explained that with a total cost of $2.7 million for PERS, minus $357,000, minus $2.6 million, left a shortage on the PERS DCR Plan for FY20 of approximately $220,000 and approximately $90,000 for the TRS DCR Plan.

MR. WORLEY said that a good example would be SBS as the oldest and highest balance invested accounts, it would be expected that the recordkeeping fee of 5.5 basis points would be higher than the $1.3 billion asset for PERS and the $540 million for TRS. He said the fees were higher in SBS because they have had them much longer and they have much higher balances, and those are what they would expect to pay. He said they had a balance built up prior that they had been able to use in those funds and it would increase as they charge the capital project. He said that was the reason for maintaining the 1.5 within the administrative side; they knew these costs were going to be going up, and they expected that there would be capital project charges for this so they built up the balance to maintain the 11 basis points for those three funds.

MR. WORLEY said that in looking at SBS, once they paid off the capital project, they may decide that one is due for a reduction, but for now they did not see that for PERS and TRS DCRs based on the cash flow from the fees collected and what were used for the administration and investing of the funds.

CHAIR WILLIAMS asked if the record keeping fees were going to Empower and if they were the 5.5 basis points; MR. WORLEY stated that was correct. He said that they direct Empower to collect from member accounts, 17 basis points for the year for the Deferred Compensation Plan and 11 for the three, plus the annual fixed fee.

CHAIR WILLIAMS said that a lot of the accounts have 11 basis points as a recordkeeping fee, and Deferred Compensation was 17 basis points. He said some districts have cut a different deal with Empower that was exclusive. He asked if there was a reason the basis point fee could not be lowered for the Deferred Compensation; MR. WORLEY stated that it would be something they would need to look at with budgeting and then with the capital project that they have going forward.

CHAIR WILLIAMS said that there could be a benefit to being more transparent with the recordkeeping fee at 5.5 basis points for the plan and the other fee that was going to DOR and DOA was at a certain amount just to provide clarity to everyone. He said that it is important that they are competitive and when municipalities and districts strike their own deal and it's more competitive, that is something they should examine.

D. Empower Update

MS. DAUBESPECK said in regard to CHAIR WILLIAMS questions concerning the fees and if there were any change in services as a result of the fee decrease. She said that they actually increased their services as a result of the fee decrease and included an office in Juneau as well as added two additional retirement plan advisors to service the members of the state.

MS. DAUBESPECK said that as far as distribution for one investment option, they had been doing quite a bit of work on a phased approach. She said they wanted to make sure they had a very defined, clean solution in place for the launch of J.P. Morgan SmartSpending, which they anticipated would be in January.

MS. DAUBESPECK said that they had heard from one of the members in the program that the form that needed to be completed was complicated so they had been working on a streamlined form that would do two things. She said it would make it easier to complete and it would allow participants to select just one investment option to be able to take a distribution from and instructions on how to handle it. She said they were also having an updated form that would allow someone to do a periodic payment with just one investment option, which was not an option before; those two items will be going live in December.

MS. DAUBESPECK said there were three main touch points in their care center. She said when the forms were ready, they will train all of the care center representatives on how to fill out the forms. She said they would provide updated scripting notes that if someone calls in and requests the ability to do a periodic payment or take a partial distribution out of one investment option, they would have that training for the client service representatives so they would be ready in January as well.

MS. DAUBESPECK said the second component of the care center was the guided distribution, which requires programming. She said that would allow participants to call in and have the customer service representative complete the form for them. She said that was work that was being scoped to see what the time frame would be for that.

MS. DAUBESPECK said the third component was doing online distributions, allowing participants to choose one investment option for the distribution. She said they had completed step one in that process and presented it to their representative who performed all of the initial scoping and the representative agreed that there was a need for it. She said they were performing the technical scoping of it to determine if there was another initiative that could be tied to it, or if this becomes a stand-alone initiative.

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MS. DAVIDSEN said that they had been working on various options to elect a self-directed brokerage option that would be ready to go live on January 5th. She said they are looking at allowing are no load funds, no transaction fees, tax exempt fund, and exchange traded funds, but that these are still being discussed. She said that it would be with a minimum core balance of $5,000, minimum transfers of $2,500, and minimum subsequent transfers of $100.

MR. HIPPLER asked if any restrictions had been imposed on the amount of money that people could put into the brokerage window; CHAIR WILLIAMS said that there was no restriction for how much they could put in.

MS. DAVIDSEN said that was correct. She reiterated that there was a minimum that had to be maintained in the account and minimum transfers, but not how much could be moved overall.

CHAIR WILLIAMS said that there was a pretty strong interest in this and that his understanding of the mutual funds was that there were no fees for purchasing funds that did not have a $25 transaction fee. He said there was 7,000 to 8,000 of them with a wide variety so people should be able to find things that they were interested in.

MS. DAVIDSEN said that they were working closely with J.P. Morgan, DRB and DOR to get J.P. Morgan SmartSpending implemented and staff trained so everyone is ready to go in January.

MS. DAVIDSEN stated that from a field standpoint from Empower, meetings have increased about 20 percent from Quarter 2 to Quarter 3; they did 577 meetings in Quarter 3 and had finally seen the lull. She said as far as a back-to-in-person update, it looked like it would be sometime next year before they could have in-person meetings.

MS. DAVIDSEN said that they were still seeing people enrolling, and participation was on its way up. She said they were seeing more people enrolling into the plan than coming out of the plan.

MS. DAVIDSEN said one of the things they were seeing this year was more outflow from a cash flow standpoint, which she thought had to do with the COVID distributions. She said they had an upcoming strategic partnership plan where they would work with DRB to come up with communication programs to figure out where participants in Alaska needed it the most, and they would be able to present that to the Board at the next meeting.

MS. DAVIDSEN stated that the last item she wanted to go over was the employer update. They had just added their 16th employer, Northern Arctic Borough. She said there are different factors and a variety of reasons that a place doesn't adopt the state plan, but that in no way did Empower want to inhibit anybody from joining the state if they want to. She said they would continue to add employers if there is interest.

E. FY22 HRA Contribution Amounts

MR. WORLEY said that they annually notify the committee of what the upcoming fiscal year's Health Reimbursement Arrangement employer contribution would be. He said that it was determined by Alaska Statute 39.30.370. He said for FY22 the HRA amount annually contributed to a member's account for one year of service would be $2,168.40. He said this information was provided to the employers for when they were contributing their payrolls. He said starting July 1, 2021 through June 30, 2022 there will be a slight increase of 0.43 percent.

CHAIR WILLIAMS asked if it was an information item and not something that would have to move forward to the Board; MR. WORLEY said that there was no adoption process, it was a computation that they provide as an information item.

CHAIR WILLIAMS asked if it was a combination of all salaries for PERS and TRS together and taking 3 percent of that amount and dividing it amongst all the members to come up with that amount. MR. WORLEY stated that was correct, that the Statute states in part "For each member of the plan an employer shall contribute to the TRS and PERS Retirement HRA Plan Trust an amount equal to 3 percent of the average annual compensation of all employees of all employers in TRS and PERS."

CHAIR WILLIAMS said that they were amounts of money in an individual account for each member and that each account gets interest which was calculated earlier in the year. He said members then have access to it when they meet the requirements of 30 years of service of the different levels of service or Medicare-age-eligible.

MR. WORLEY stated that was correct and that they were in the final processes of computing and posting to PERS and TRS HRA member accounts. He said he'll be doing an update at the March meeting of what those percentages are.

VII. FUTURE MEETINGS - None

A. Calendar Review - None
B. Agenda Items - None
C. Requests/Follow-ups - None

VIII. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE – None.

IX. PUBLIC/MEMBER COMMENTS

X. CHAIR WILLIAMS welcomed MR. COLLINS and MR. MOEN to the committee.

XI. ADJOURNMENT

MR. HIPPLER moved to adjourn the meeting. MR. MOEN seconded the motion. The motion passed without objection.

The meeting was adjourned at 11:25 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.