

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

**Videoconference**

**MINUTES OF**  
**September 16, 2020**

**Thursday, September 16, 2020**

**ATTENDANCE**

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

**Committee Absent:** None

**Other Trustees Present:** Dennis Moen

**Investment Advisory Council Members Present:** None

**Department of Revenue Staff Present:**

Zachary Hanna, Chief Investment Officer  
Scott Jones, Head of Investment Operations, Performance, & Analytics.  
Pamela Leary, Director, Treasury Division  
Kayla Wisner, State Comptroller  
Stephanie Alexander, Board Liaison  
Mike Barnhill, Deputy Commissioner  
Sean Howard, Portfolio Manager Alternatives  
Michelle Prebula, Manager of External Public Equity & DC  
Ryan Kauzlarich, Accountant V  
Grant Ficek, Business Analyst

**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  
Ben Lovitt, Empower  
Meredith Empie, T. Rowe Price  
Tony Luna, T. Rowe Price  
Ben Gugliotta, T. Rowe Price

**I. CALL TO ORDER**

CHAIR WILLIAMS called the meeting of the ARM Board Defined Contribution Plan Committee to order at 9:00 a.m.

**II. ROLL CALL**

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

**III. PUBLIC MEETING NOTICE**

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

**IV. A. APPROVAL OF AGENDA**

The agenda was approved without objection.

**B. APPROVAL OF MINUTES: June 17, 2020**

MR. WEST moved to approve the minutes of the June 17, 2020 meeting. MR. JOHNSON seconded the motion. The minutes were approved without objection.

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

**VI. DRB UPDATES**

**A. Chief Pension Officer Report**

**1. ARMB and DR&B’S Responsibility and Authority for In-Plan and Out-of-Plan Annuities**

CHAIR WILLIAMS introduced MR. PUCKETT who gave a brief summary of the plan. He stated that since the original plan from July 1, 2006 came out, there is a much closer interface between annuities and the other products that are available on the market. One of the questions that has arisen since 2006 is Under what type of circumstances does DOA, DRB, or the ARM Board have authority to provide options or are responsible for overseeing? He stated that at this time there is nothing clear when a hybrid option comes up. They are looking to the Lower 48 to see if there is anything out there, but do not expect to find much. Another question that has come up is “Would the ARM Board be liable if a participant used one of the financial tools that are made available?” The

answer is no, per Alaska statutes.

MR. JOHNSON requested some specific direction on what can be done before they can really start working on it. MR. PUCKETT stated that they are going to work on making it clearer. He also said there is a requirement to create a distribution annuity option and that AS 39.35.820 gives a list of forms for distribution that must be offered to participants which lists that a participant may elect to receive the participant share of the individual account and gives seven subpoints of different types of annuities that need to be offered. MR PUCKETT further offered that Subpoint 7 was added in 2018, which provides that a payment method could be authorized by a regulation adopted by the Commissioner of Administration.

MR. WEST asked if a more defined process for regulatory approval was MR. PUCKETT's intention. MR. PUCKETT stated that he intends to develop a process and that he would have to familiarize himself with some of the requirements, but he will make it as efficient and effective as possible.

## **2. Brokerage Options Available to Participants**

MR. PUCKETT stated that a question has come up about why there is not a brokerage option available. He stated that Treasury and DRB have been working together for a few months and have investigated what is available. They looked into Empower, TD Ameritrade, and Charles Schwab. They have settled on and are recommending to the DC Committee that they go with Empower. He goes on to explain that MS. PREBULA has been part of the investigation on brokerage options and will share a list of the brokerage features that are going to be considered.

MS. PREBULA stated that for determining the primary features that will be in the brokerage window, they relied on Callan's recommendations to keep the initial rollout simple in order to make more options available in the future rather than offer a lot of options and find they were not working and then have to roll them back. They are limiting it to mutual funds and ETF's with no leveraged funds, no funds with embedded options to the extent to what is accommodated by Empower. The initial transfer minimum will be \$2,500, requiring \$5,000 minimum amount to remain in the core investment.

MR. PUCKETT stated that the decision was made not to go with equities for simplicity during the roll-out, which is why only mutual funds and EFT's are offered. Equities can be offered at a later date if enough interest is shown.

MR. CENTER from Callan's confirmed it is more difficult to take away the option for individual stocks than it is to add ~~them~~.

MR. HANNA added that individual securities are more susceptible to being delisted which can create problems for the brokerage window - those securities can end up orphaned in the account.

CHAIR WILLIAMS stated that he is satisfied with the equities and exchange trade fund brokerage fees as well as the Option trades. However, the transaction fee for mutual funds are at \$25 to buy or sell and feels that seems high.

MR. PUCKETT stated that he is not familiar with those types of fees. He also stated that they are still

studying this offer.

MR. LOVITT stated that there are mutual funds that have a transaction fee of \$25 and there are approximately 7,000 to 8,000 mutual funds that do not have a transaction fee of \$25. The fee schedule has two rows for mutual fund transactions or mutual fund types.

MR. CENTER directed CHAIR WILLIAMS attention to the fee schedule on page 22, line 4 showing no-transaction-fee (NTF) mutual funds.

MR. PUCKETT stated that he has no updates on the legislative side but used the time to share an update on the COVID-19 distribution program which is part of the CARES Act for those members of qualified plans. They can receive a distribution without the penalty of being under the age of 59 ½ and have options on how to handle the taxes of that. At the close of business September 15, 2020, the Division had processed and submitted to Empower for processing 1,295 requests for distribution. As of this date, \$25,007,154.66 has been distributed which averages out to \$19,310.54 to each member who requested it. This program is open until December 21, 2020.

MR. WEST moved that the Alaska Retirement Management Board direct staff to work with Empower Retirement to implement a brokerage platform for members of the Alaska Supplemental Annuity Plan, the Defined Contribution Retirement Plans, and the Deferred Compensation Plan. MR. HIPPLER seconded the motion.

MR. JOHNSON asked MR. PUCKETT if this action now required adoption of a regulation in order to activate it consistent with the way it was described. MR. PUCKETT stated that he does not believe it needs to go through the regulatory process but will check with their legal counsel to confirm

CHAIR WILLIAMS read an email from IAC Member, MR. JENNINGS, regarding this same topic before a vote is taken. MR. JENNINGS stated in part:

...I did want to offer the view that I think it is reasonable for the committee to impose limitations on the brokerage window, either as a percentage of the participant's portfolio or as to which investments are allowed. This is consistent with Callan's goal-slow advice. At a minimum, this committee might explore what limitations staff could impose on the brokerage window and be comfortable with Empower and staff's answers.

And so, based on what we have before us, I think we are in this go-slow where we are limiting it to ETF's and mutual funds. And I don't believe we are having, right now, any limits on how much people can put in there, but I wanted to share that comment.

MR. HANNA commented that there is an option to allow this brokerage window to be open to a kind of third-party broker or money manager who can trade on behalf of participants and can also allow third-party money managers to be able to market to brokerage window participants. He also stated that staff fully supports not enabling either of those options and effectively allow the brokerage window to be available to participants only to trade on their own behalf.

MS. PREBULA added that there is a concern that opening the window will allow investment professionals to invest on behalf of participants which would also allow participants to request that financial advisors be allowed to charge fees to that window as well.

MR. PUCKETT further explained that the expense for having the brokerage will be covered only by the members that actually use the tool. There will be no expense to the plan.

CHAIR WILLIAMS stated that as Empower has all the records that it would be easy for them to just plug in the information. If there is a case in the future where record-keeping goes out to bid and someone else gets the record-keeping this could feasibly transfer over to the new recordkeeper at some point. MR. PUCKETT commented that this is a common process where people will be with one broker and then decide to change to something else. MR. PUCKETT further stated that he did not anticipate any problems if a new record keeper was chosen in the future.

CHAIR WILLIAMS asked MS. ALEXANDER for a roll call vote, the motion passed unanimously.

## **B. Health Reimbursement Account (HRA) Discussion**

MR. PUCKETT stated CHAIR WILLIAMS had a conversation with members of the TRS. A counselor was assigned to respond to the question that CHAIR WILLIAMS passed on to DRB. The first question was “May a defined contribution member retired after 30 years of service before age 65, or Medicare age eligible, delay their retiree medical coverage until age 65?” He stated that yes, they do not have to enroll in the retiree medical coverage until they reach the age of 70 ½. There is a caveat in which the person must have a minimum of 10 years of service, must be Medicare eligible and must retire directly from the system. That will qualify them for access to the retiree medical coverage and they will only have to pay a percentage of the premium based on their service.

The next question is “How much of the retiree health plan premium must they pay if they’re not of Medicare age.” They will have to pay 100 percent of the premium. Currently the full premium for the retiree and family if they are not Medicare eligible is \$2,665 per month.

CHAIR WILLIAMS asked what does retiring directly from us mean if you can delay another 13 years before you have access to it?

MR. PUCKETT stated that a member that retired from TRS at an earlier age would have access to the financial benefits in TRS, DCR, including the HRA, SBS account or deferred compensation if that is what they have, but they do not have to enroll in the retiree coverage at the age of 52. If they retire at 52, they have access to the financial benefits that are available to them and can delay that retiree coverage until age 65.

CHAIR WILLIAMS asked if a member is retiring now, they might have access to other things, but do they have the option to delay the retiree medical plan benefits until they become more affordable?

MR. PUCKETT stated that is correct. A member would get access to their health

reimbursement account (HRA) and that benefit is available even if a member is not using a health plan from another employer.

CHAIR WILLIAMS further asked, based on the answers of MR. PUCKETT, if a member cannot access their HRA account until they are Medicare eligible?

MR. PUCKETT confirmed that is one of the requirements of eligibility to the HRA account - a minimum of 10 years of service and also Medicare eligible or the age of 65. However, if they are a peace officer or fire-fighter, they get access to it with 25 years of service. Teachers and all others get access at 30 years of service. He also stated that members cannot go in and out of medical/DVA coverage during retirement, they can only delay the initial enrollment. They are also eligible for rollover after termination to another employer's plan or an IRA after 60 days. They can also leave their funds in the state accounts as long as they want but the minimum distribution age is 72 and they will have to begin receiving their annual distributions.

### **C. Empower Update HRA Investing Discussion**

MR. WORLEY gave his report by continuing a discussion of the impact to a member's account on drawdown of the assets and if the members would be able to invest in an individual account. After researching the question, he discovered that option is not available. They worked with MR. DILG and looked at statutes and the AAC to see if that could be an option. He indicated that there is statutory language for the SBS, Deferred Comp and PERS/TERS/DCR to have explicit authority to exercise investment control, however the HRA statutes do not mention this. AS 39.33.370 has specific language that the administrator shall maintain a record. He states that without an amendment of HRA statutes and ARM Board statutes, there is no authority to create a system of personal investment control.

### **D. Empower Update**

- 1. Fund Withdrawals Response**
- 2. COVID-19 Operations Update**

MS. DAVIDSEN of Empower stated that they are preparing to begin in-person meetings and placing a lot of effort into making sure that all involved are safe at the meetings by preparing a PPE participant backpack that will contain plexiglass shields, hand sanitizer, and separate screens for people. She also mentioned that there is a new office space in Anchorage at the Frontier Building, that they have hired their fifth RPA from Denver and this should increase the walk-in hours. They are also testing out Saturday hours. Juneau now has an Empower office in the SOB. They have also put together a Conference in a Box to send out with the meeting materials and part of that are the enrollment documents for 457. Thorne Bay is being added to the plan and she is working with the Sitka School District to get them on board.

MS. DAUBESPECK of Empower stated that there are two exciting Empower Retirement acquisition updates. Empower Retirement Purchased Personal Capital which is a leading digital-first registered investment advisor and wealth manager. The second transaction is that Empower has entered into an agreement to purchase the MassMutual retirement plan business. MassMutual has approximately 26,000 workplace savings plans with around 2.5 million participants and \$167 billion in assets. This transaction should close in the fourth quarter.

CHAIR WILLIAMS asked about the fund's withdrawal. MS. DAVIDSEN stated that being able to take a withdrawal from one investment option is something that is available, but not electronically at this time. She stated they are looking into that and would possibly have an estimate, as far as timing, by the December meeting.

## **VII. TREASURY UPDATE**

### **A. Stable Value Review**

MR. HANNA recommended one change to the Stable Value Fund which is to expand the cash investment options and directed the boards attention to MS. EMPIE of T.Rowe Price.

MS. EMPIE introduced MR. LUNA also of T. Rowe Price to discuss the basics of Stable Value which is a safe harbor for the members. He explained how T. Rowe Stable Value has had asset growth amidst COVID. He explains that the Alaska Stable Value Fund is made up of cash and intermediate bond portfolios. It is only available for deferred contribution plans and tax qualified plans. He stated that a person can have a risk-free asset but if they are willing to live with a little risk, they can add a significant amount of return and have the same or less volatility. He explained the benefits of wrap contracts and how they can smooth volatility and that COVID did not phase the plans.

MR. HANNA asked how closely T. Rowe monitors financial crisis as rates go up and down and how that affects the management of both the bond portfolio and the wrap contracts. MR. LUNA explained that they do keep their finger on the pulse of these crises - they look at cash flows daily, weekly, monthly and annually. They look for changes that might lead them to change the structure of the portfolio.

### **B. Cash Investments for Stable Value Fund**

MR. LUNA stated that the premise behind the Cash Reserves Trust is that it created a prime reserve trust to not be constrained to Treasury money market or STIF rates within the Stable Value. He said that T. Rowe created a prime reserve trust that they call a Cash Reserves Trust so they can take a bit more yield which is similar to the Alaska Money Market Building Block Trust.

CHAIR WILLIAMS suggested they move to the action item.

MS. PREBULA moved on to the action item. The recommendation is: The Defined Contribution Committee recommends the Alaska Retirement Board direct staff to modify the existing contract for the Stable Value Fund to reflect authorization to invest cash reserves in the T. Rowe Price Cash Reserves Trust.

MR. WEST moved to accept the action. MR. JOHNSON seconded the motion.

CHAIR WILLIAMS asked MS. ALEXANDER for a roll call vote, the motion passed unanimously.

**VIII. CALENDAR REVIEW**

MS. ALEXANDER said there were no updates to the calendar.

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

**X. PUBLIC/MEMBER COMMENTS –** MR. MOEN thanked the committee for their dedication and appreciated the presentation.

**XI. ADJOURNMENT**

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

The meeting was adjourned at 10:59 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.