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

Videoconference

MINUTES OF
March 17, 2021

Wednesday, March 17, 2021

ATTENDANCE

Committee Present:
Bob Williams, *Chair*
Allen Hippler
Rob Johnson
Dennis Moen

Committee Members Absent:
None

ARM Board Trustees Present:
Lorne Bretz
Don Krohn
Commissioner Tshibaka

Investment Advisory Council Members Present:
Dr. William Jennings
Ruth Ryerson

Department of Revenue Staff Present:
Zachary Hanna, Deputy Chief Investment Officer
Pamela Leary, Director, Treasury Division
Kayla Wisner, State Comptroller
Mike Barnhill, Deputy Commissioner
Scott Jones, Head of Investment Operations, Performance & Analytics
Michelle Prebula, Public Equity & DC Investment Officer
Tina Martin, Accountant IV
Ryan Kauzlarich, Accountant V
Alysia Jones, Board Liaison
Grant Ficek, Business Analyst

Department of Administration Staff Present:
Ajay Desai, Director, Division of Retirement and Benefits

Kevin Worley, CFO, Division of Retirement and Benefits
James Puckett, Manager, Division of Retirement and Benefits
Nimeri Denis, Audit & Review Analyst II, Division of Retirement and Benefits
Emily Ricci, Health Care Policy Administrator, Division of Retirements and Benefits
Roberto Aceveda, Counseling and Education Manager, Division of Retirement and Benefits

Department of Law
Stuart Goering, Assistant Attorney General, ARMB Legal Counsel
Rob Schmidt, Assistant Attorney General
Kevin Dilg, Assistant Attorney General
Benjamin Hofmeister, Assistant Attorney General

Consultants, Invited Participants, and Others Present:
Paul Erlendson, Callan LLC
Steve Center, Callan LLC
Ben Taylor, Callan LLC
Liz Davidsen, Empower
Marybeth Daubespeck, Empower

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. 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
MR. JOHNSON moved to approve the agenda. MR. MOEN seconded the motion. The agenda was approved without objection.

B. APPROVAL OF MINUTES: December 2, 2021
MR. JOHNSON moved to approve the minutes of the December 2, 2020 meeting. MR. HIPLLER seconded the motion. The minutes were approved without objection.

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

VI. CHIEF PENSION OFFICER REPORT

A. BluePrint Annuities Portal
MR. PUCKETT said in coordination with Treasury, they were going to hold off for now discussing the BluePrint Annuities Portal and focus instead on the brokerage option and what needed to be done

to implement that. They will re-address that when they implement the brokerage option and SmartSpending later in the year.

B. Brokerage Option Implementation

MR. PUCKET stated that they were putting together a packet of regulations that would provide protection to the ARM Board, Division of Treasury and Division of Retirement and Benefits. The packet would have to be reviewed by the Department of Law and by Ice Miller, their tax counsel. There was a 30-day period to compose and review regulations, as well as a 30-day public notice period, and a 30-day period before the regulations could take effect. He said this caused a delay in the implementation of the brokerage option until at least July 1, 2021.

MR. DILG said that statute 39.35.800 defined what an investment fund was and the times of transfer. He said there was a liability shield discussed in statute 39.35.800(e) that protects from losses by participants. He said another component was that Alaska was unique in that it has a constitutional protection for retirement benefits. He said the new self-directed brokerage was a more complex process, but the MOA showed there was protection from claims of constitutional diminishment, provided that there was a legal foundation that transactions that took place within the self-directed brokerage window do not create vested benefits. He said they were working with Ice Miller who had extensive experience setting up self-directed brokerage windows in private pension systems.

CHAIR WILLIAMS asked if there could have been more due diligence before they got to the point where they had announced the self-directed brokerage window opening in January, and that did not happen, how could it have been avoided; MR. DILG said that if they had gotten the educational materials in place before January 1, they could have hit the ground running, unfortunately, the Department of Law did not hear about it until a couple of days before it was to become available.

MR. DILG said Ice Miller had referred them to Oklahoma who had a self-directed brokerage inside their public pension system where they were able to view their regulations, and they needed to make sure Alaska statutes lined up with what was going to be available through the self-directed brokerage.

CHAIR WILLIAMS asked how confident MR. DILG was on the July 1 date actually working; MR. DILG said that it depended on the submission of documents, when they are reviewed and when they were sent out to the public for comment and then get them adopted and enrolled with the Lieutenant Governor's office.

MR. PUCKETT said from an administrative standpoint it would depend on getting the regulations drafted and submitted for review. He said that when they started examining the self-directed brokerage and figuring out what needed to be done, it did not come to mind immediately that they would have to draft regulations, gather information, and prepare educational material for the members.

MR. JOHNSON asked MR. DILG to clarify the regulations they were talking about were DRB regulations, and there was not a need for ARM Board regulations. He also asked if there was a need to implement regulations with respect to the issues that he described that were more of a general application to the defined contribution process and the investment process; MR. DILG said he was not sure that it would fall solely on the ARM Board to do any of those things. He said the DRB could give the Board their interpretation of the statute.

MR. JOHNSON asked if there was a way they could urge him to consult with STUART GOERING or anyone else with respect to whether there was a need for the ARM Board to begin working on its own set of regulations; MR. DILG said that he and MR. GOERING were speaking regularly about the issue.

CHAIR WILLIAMS asked if the regulations were going to be in place for the education process to begin and if that would all be resolved by July 1st or did they anticipate other issues coming up that would further delay; MR. DILG said that it would depend on administrative pressures. He said the educational materials had been coming in and the Department of Law had been going through them and believed that the educational materials and regulations could all be brought up online. He added that the intent was to provide high-end guardrails that would allow for things to be brought online slowly as it moves forward.

C. Legislation Updates

MR. PUCKETT said they were watching HB 55 - Peace Officer/Firefighter Retire Benefits, which was a continuing effort with HB79 from the last session. He said the bill would create a PERS Tier 5 and implement new ARM Board duties and make amendments to 37.10.390(a) and (b). He explained the ARM Board would be the one that would determine the employer and employee contribution rates for the new tier. He said it would also make changes to the retirement benefits available to police officer and firefighters that were in Tier 4; they would have the opportunity to join the new tier which would put them into the Defined Benefit Plan. He noted the big difference was that they would have the Tier 4 retiree health plan rather than the current retiree health plan.

MR. PUCKETT said SB6, RIP for public employees and teachers was a retirement incentive program. He stated that savings were not a guarantee in a RIP, the only guarantee was the benefits that were available to the new retirees.

MR. PUCKETT said SB55, which deals with employer contributions to PERS, removed the 22 percent cap on payroll contribution to PERS for the State of Alaska as an employer. He said the bill would increase the State of Alaska payroll contribution rate from the fixed 22 percent to the actuarially calculated amount which was 30.11 percent for FY2022.

MR. PUCKETT said the other two bills they were monitoring were SB30, which would change colorectal cancer screening coverage in the retiree health plan; and SB 37, which would give all teachers and public employees an opportunity to go back into the Defined Benefit Plan if they choose.

MR. JOHNSON asked if there would be less money coming into the system as a consequence of SB55; MR. PUCKETT said the testimony in Senate Finance by the OMB Director was that the state would continue to honor its commitment to the PERS and would distribute its portion throughout the full fiscal year; MR. JOHNSON then asked if there was a loss to the PERS system; MR. WORLEY responded to the question explaining that there would be a reduction of investment income of under \$3.7 million for the year. He further explained that the change would allow the state to charge back to the federal government or other programs that would reimburse the state for personal service costs.

VII. CALLAN 2021 DEFINED CONTRIBUTION SURVEY

MR. TAYLOR explained that there were 93 large DC plan sponsors that took part in the survey that are both Callan clients and non-Callan clients. He noted that 61 percent of the respondents had assets greater than $1 billion, and 13 percent were government plan sponsors. He noted that the bulk of the government plans had open DB Plans and several others offer both a 457 and a 401(k) plan.

MR. TAYLOR said the focus on cybersecurity dropped significantly, which he found surprising due to an all-remote working environment where there would be a larger potential for cyber risk. He noted an increase in focus on plan governance and process with more than half of the plan sponsors focused on fees. He noted that several had moved their focus to areas that were more suited to remote work environments that were less destructive to investment menus.

MR. TAYLOR said fiduciary initiatives were fairly consistent, fees were less prominent, but basic priorities for most plan sponsors were the same. He explained that people were mostly focused on monitoring what made their plans successful, which was participation rate, contribution or savings rates, investment performance, and diversification.

MR. TAYLOR said the main thing with respect to investment structure was lack of changes. He said four out of five plans were not changing anything. He said those plans that did change had a predisposition to decrease rather than to increase the number of funds. One exception he noted was a gradual increase in the frequency in which brokerage windows were offered.

MR. TAYLOR noted that most plans were consistently calculating the all-in plan fees, that 70 to 75 percent of plan sponsors did this on an annual basis. He also noted that plan sponsors were adopting explicit per-participant dollar fees.

CHAIR WILLIAMS asked if MR. TAYLOR had stats on the government plans for their DC people; how do those fees break down; would it be more participant per-asset base; and how many basis points it would be if it were on assets; MR. TAYLOR said that he would report back on that. He also noted that it was more common to see a supplemental asset-based fee.

MR. TAYLOR explained that two thirds of the plan sponsors were somewhat or likely to conduct a fee study, which was higher than the previous year in the DC survey due in part to the significant moves in the market.

MR. TAYLOR noted that 13.7 percent of the plan sponsors were looking into a recordkeeping search. He said those types of contracts were usually a five-year cycle.

MR TAYLOR noted that there had been an increase in total meetings from 5.7 meetings per year to 6.8 meetings per year, with a reduction of in-person meetings from 5.2 to 1.8 percent and an increase in virtual meetings from 3.5 to 6.3 percent. He said that in terms of meeting attendance from a government standpoint, not much had changed. However, legal had seen the biggest change. He said lawsuits had been picking up the pace with respect to DC Plan litigation, where internal legal counsel had been attending the meetings.

MR. TAYLOR noted that government plan sponsors were more likely to use investment consultants. He noted that plans with upward of 50,000 participants, 87 percent of the survey respondents offered a managed account service. He also commented on DC leakage, stating that most plan sponsors are trying to reduce it, including partial distributions, installment payments, and loan repayment options.

VIII. DEFINED CONTRIBUTION FEES, HRA, AND BEARS

MR. WORLEY said there were four plans in the Division of Retirement and Benefits; Defined Contribution Plan, Supplemental Benefit System, PERS DCR and TRS DCR. Within the contractual services the Division of Retirement and Benefits included the annual audits of each of the trust funds. They also had information technology support from various vendors that they had including Applied Microsystems and Wasserman & Associates. He also noted the Division was going through a system modernization capital project where they were replacing the combined retirement system with a new system called BEARS. He said the costs had been included within the contractual services other than the Empower line. He said the Division had a cost allocation plan where they annually looked at employees within the Division as to where they spend their time working with the membership and the in-person service costs which were then allocated to the four plans as well as the plans that were administered by the Division. He explained they were also able to direct-charge a trust fund.

MS. WISNER said that Treasury also has a cost allocation plan that allocates personnel services based on how people spend their time. She said for contractual payments, they have a similar system as MR. WORLEY had explained. They have Callan, KPMG and Anodos who did the performance consultant audit.

CHAIR WILLIAMS asked where the pressure was to contain costs; MS. WISNER said they look at the costs annually to determine where people spend their time to make sure they were properly allocating those costs. MR. WORLEY added regarding the work the Division of Retirement and Benefits performed, they go out for bids every three to five years to ensure they get competitive bids and were not sole sourcing any contracts and were able to contain the costs.

MR. WORLEY provided an update on the health reimbursement arrangement and interest rates. He said that membership had to meet certain eligibility requirements for interest eligibility. He said they post that information on their website as well as member interest in their accounts through June 30 of 2020. He said by regulation, they had to have membership interest posted by January 15th of the calendar year following the end of the fiscal year. He said the information was also available on myRnB, so members could go into their account and see the information there as well.

CHAIR WILLIAMS asked MR. WORLEY to explain the differences in interest rates between PERS and TRS. MR. WORLEY said there are eligibility requirements within each plan, and they have a computation that takes into account five years of average expenses to administer the plan and then CPI adjustments. He said the percent of eligible members in TRS could be different than PERS which was why there were differences in the rates.

MR. WORLEY explained that the BEARS project is the system modernization that the Division of Retirement and Benefits was going through. He said BEARS stands for Benefits And Retirement Systems. He said that system was replacing the combined retirement system and would be a consolidation of pension and health within one system. He explained that it was a multi-year project where the costs would be spread out over the years and all four plans would be paying for part of the $30 million project.

CHAIR WILLIAMS asked if the project could be paid for with a bond that would be paid off over a 15-year time frame and was there a way it could incorporate recordkeeping as well; MR. WORLEY said they did put out a request for information to see what type of responses they would get from vendors, and $30 million appeared to be a good number for the project.

MR. DESAI said that he had studied offers from vendors that involved the old mainframe and building programing into the old system and they all came back with costs upwards of $80 million. He said he found it to be too costly and not a solution, so they pursued an RFI to see what companies developing the latest software were offering that met the requirements. He said the platform that they chose was not going to be obsolete for at least 20 years. The old system will be retired once the new system is up and running in October of 2023.

CHAIR WILLIAMS asked if the new system was for keeping track of all the health and pension information and not taking over the recordkeeping services that they have in the plans; MR. DESAI said that was correct.

CHAIR WILLIAMS asked if they were on track to pay off the $30 million by the end of 2023: MR. DESAI said that they had a detailed payment schedule that broke the work down month by month, what would be accomplished, and at what milestones, the vendor would get paid a certain amount. If the work was not completed by the deadline, the vendor would not get paid until the work was completed.

IX, EMPOWER UPDATE

MR. PUCKETT explained to CHAIR WILLIAMS that he had failed to convey to Empower the need to provide descriptions of their annuity lineup and what members would need to do to get an annuity. He stated that Empower did not have the information requested but would provide it within a week. CHAIR WILLIAMS said that he did notice the omission and had planned to follow up on it later.

MS. DAUBENSPECK began her presentation by explaining the Empower staff that made up Team Alaska and their rolls in the team. She went on to explain that the director of participant engagement's focus was to make sure Empower delivered on all promises from the meeting outcomes perspective. This person was responsible for half of the country from a participant engagement point of view. She further explained there was a person specifically responsible for Alaska and that this person had five retirement advisors assisting.

MS. DAUBENSPECK explained that in the last year they had 5,345 meetings with Alaska members, of which 3,200 were detailed retirement readiness reviews. She said they helped them through their financial picture and understanding what their next financial steps should be, with a goal of assisting as many people within the state as possible.

CHAIR WILLIAMS asked if Empower had people in cities other than Anchorage and Juneau; MS. DAUBENSPECK stated that all the field representatives are within the state of Alaska. She confirmed that they opened an office in Juneau as well.

MS. DAUSBENSPECK stated in regard to how quality was measured, they survey every call that comes through the call center as well as the call quality. She said that they also measure quality through record keeping - their accuracy was at 99.99 percent for money coming into the organization as well as in the form of payroll, roll-ins, distributions, RMDS, and participant maintenance, and resolution. She said they also measured delivery of statements, confirmation notices, and fulfillment of marketing materials. She explained that they also look at trust and financial operations. She stated that on a daily basis they would price more than 72,000 investments and transact more than 200,000 trades.

CHAIR WILLIAMS asked if the figures were just for Alaska; MS. DAUBENSPECK stated that the care is specific for Alaska, but the recordkeeping quality is not separated by states.

MS. DAUBENSPECK stated that the service team was specific to Alaska and after the retirement plan advisors meet with members, the members were sent a survey. She said the survey shows the representatives in the field have an average score of 9.13 out of 10.

MS. DAUBENSPECK said the Callan research and MR. TAYLOR's presentation was exceptional as far as discussing different ways to price a business. She stated that they have a lot of options for recordkeeping; they could do asset-based pricing, per count, and a combination of the two.

CHAIR WILLIAMS asked if there were challenges in the program where there would be room for improvement. MS. DAUBENSPECK stated that one of the things they were working to improve was multiple plans with different rules. She said they were hoping to deliver the ability to have an additional indicator for each individual by the fourth quarter, so that as they moved between programs, they could be specific as to which program the individual was active in and which program they terminated. She said payroll and tracking was another area with opportunities for improvement.

CHAIR WILLIAMS said rural Alaska teachers were unable to create an Empower account because it required a numerical address, and those teachers only have general delivery. MS. DAUBENSPECK said she would have to look into that and get back to him.

X. TREASURY DC UPDATE

MR. HANNA stated that they were starting slow with mutual funds and EFTs which would expand investment opportunities for participants. He also said that a full review of the T. Rowe target date and balance funds would be starting soon. He said the review would focus on the asset class offerings, the glide path in terms of whether the existing path for all participants was the best path or whether there were modifications they could recommend, or even the possibility of custom glide paths, and also cost.. He said they would be working with T. Rowe Price to ensure they had something that was cost competitive.

CHAIR WILLIAMS asked if it was accurate to say that with T. Rowe Price, the offerings could be improved that were in the target date funds or negotiate lower fees or both; MR. HANNA stated that both of those were correct. He said a recommendation to the Board could be to test the market which could give them a certain amount of leverage in a discussion with T. Rowe Price on cost.

MS. PREBULA stated that the estimated implementation date for the J.P. Morgan SmartSpending was July 1st. She said there had been some contracting delays previously, but they were seeing progress in working through those issues.

MS. PREBULA stated that BlackRock requested a contract amendment to confirm that the plans were eligible to participate in collective investment trusts. She said they performed an audit of the contracts and found they were missing a provision they felt was critical. She said the provision states that they had the ability to participate in the investment trusts, but the collective trust plan documents would be incorporated as part of the plan documents. She said the Division of Treasury worked together with the Division of Retirement and Benefits to get permission to incorporate the information into the plans. She said that with regards to the T. Rowe Price small cap mandate in the DC fund, it was managed by T. Rowe Price and custodied at Bank of New York and the platform they used was being discontinued. T. Rowe Price requested the custody of the mandate be moved to State Street to be in line with all of the other mandates that were processed by T. Rowe Price. She said that should be implemented by April 30th.

CHAIR WILLIAMS asked if they had an idea as to how Smart Spending would work with the Empower portal, would it be an option where people could direct money to it or relocate their portfolio to put more towards it if they chose to do so; MS. PREBULA said it would be a bit of both. She said they expect it to be available on the Empower portal, but that there was a separate site for J.P. Morgan and members would have to go there to get their spend-down amount.

XI. DRAFT ARMB POLICY MANUAL UPDATE, DEFINED CONTRIBUTION INVESTMENT, POLICY STATEMENT

MS. PREBULA said they plan to incorporate this as a new section within the ARM Board investment policy documents. She said the existing policy document discusses statutory authorization for the Board and committees and how the committees were structured and their responsibilities and fiduciary duties. She said the document formalized several things including the duties they currently perform, which included periodic evaluation of target date fund suitability and periodic review of fees. She said it also lists the income options currently offered and prioritizes the risks to participants as a way for staff to evaluate options.

CHAIR WILLIAMS said that he had concerns about participant fees; MS. PREBULA stated that she did not see where they had discussed a preference other than Callan's recommendation of flat fees versus asset-based fees; CHAIR WILLIAMS then said the report mentioned leakage and that they were trying to hold on to people, and asked how much concern should they have about that; MS. PREBULA said this was the first document brought to the Board that actually mentioned it as a goal of the Board. She further stated that they had found that by encouraging people to stay in the plan, they could help them get a better deal and not be subject to predatory practices.

CHAIR WILLIAMS asked MR. HANNA if he had concerns about leakage; MR. HANNA stated that he thought it was important to have competitive offerings to participants throughout their retirement, but he did not know if it was in their interest to try to keep them in the plan and not look for better options outside the plan. CHAIR WILLIAMS then asked if an employee who leaves and gets their money out of the plan, can they roll over the 40 percent that they have in the plan and not receive the other part - would that stay with the participant-directed plan or does it go elsewhere; MS. PREBULA said that she had DRB review the plan documents and did not come up with that as an issue.

MR. JOHNSON asked if they could defer taking action or making recommendations to the Board and consider getting answers to the points that have been raised; MR. HANNA said there was one remaining recommendation from Callan's review of the DC plans in the 2016 timeframe. He said that it was a combination of the investment side and the DRB side in an attempt to incorporate, either explicit policy that had been established by the ARM Board or the DC Committee. He said they attempted to capture what they thought was the rationale for the practices that were in place in order to have the discussion. He said that it would not get to the Board until later in the year so there would be time for people to discuss the issues.

XII. CALENDAR REVIEW - None.

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

XIV. PUBLIC/MEMBER COMMENTS – None.

IV. ADJOURNMENT

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

The meeting was adjourned at 12:43 p.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.