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

Videoconference

MINUTES OF
September 22, 2021

Wednesday, September 22, 2021

ATTENDANCE

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

Donald Krohn
Dennis Moen

Committee Members Absent:
None

ARM Board Trustees Present:
Commissioner Lucinda Mahoney

Investment Advisory Council Members Present:
Dr. William Jennings

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

Department of Administration Staff Present:
Ajay Desai, Director, Division of Retirement and Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits

Roberto Aceveda, Counseling and Education Manager, Division of Retirement and Benefits

ARMB Legal Counsel Present:
Benjamin Hofmeister, Assistant Attorney General, Department of Law

Consultants, Invited Participants, and Others Present:
Steve Center, Callan LLC
Liz Davidsen, Empower
Marybeth Daubenspeck, Empower
Paul Miranda, 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. KROHN, 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. JOHNSON moved to approve the agenda.</u> <u>MR. KROHN seconded the motion.</u> The agenda was approved without objection.

B. APPROVAL OF MINUTES: June 16, 2021
<u>MR. JOHNSON moved to approve the minutes of the June 16, 2021 meeting.</u> <u>MR. KROHN seconded the motion.</u> The minutes were approved without objection.

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

VI. MEMBER FEES

MR. WORLEY noted that he would discuss the recordkeeping fees, services provided by those fees, an update on the BEARS project and the impacts on the Defined Contribution, the Deferred Comp Plan, and when and how fees change.

MR. WORLEY said that member fees were being charged at 1/12 of 11 basis point each month based on the ending monthly balance in each member's account in the Public Employees' and Teachers' Retirement Defined Contribution Retirement Plan. He said the funds were collected at the end of each month and then placed into an account that was transferred to the state which was used to pay the Division's costs, and the costs incurred by the Treasury Division. He noted that the fees were not split 50/50 but they do use the fees collected to pay for personnel services costs as well as contractors who work on the plans. He said the PERS and TRS DC Plans have a $35 annual fee which is charged in January of each year and a $25 annual fee for inactive members. He said the SBS Plan was the same, but the Deferred Comp Plan was 1/12 of 17 basis points with no annual fee.

CHAIR WILLIAMS asked if there was a rationale for the difference in the Deferred Comp Plan basis points; MR. WORLEY stated that part of it was derived because the plan was much smaller and was previously only available to State of Alaska employees and that he would have to do more research and would have that information available for the December meeting for discussion; CHAIR WILLIAMS stated that he was looking forward to the follow-up in December; MR. WORLEY noted that they did not operate their plans the same as other plans. He said some of them may be funded with other money where the State is self-funded.

MR. WORLEY stated that for the 11 basis points, Empower get 5.5 or 1/12 of the points for the cost of the services provided by them. The remaining basis points get split between the Division of Retirement and Benefits and the Treasury Division for investment and administrative costs. He said for the Deferred Comp Plan, Empower gets 5.5 with the remaining 11.5 going to the Division. He explained that Empower was the record keeper, they track investment balances, earnings and individual member accounts. He reminded the Board that Empower had been the recordkeeper for PERS and TRS plans since July 2006, SBS since 1995 and Deferred Comp since 1987. He noted that procurement rules govern that the state has to put out RFP's, which they had done many times over the life of the contract, to ensure the state received the best service for the cost.

CHAIR WILLIAMS asked how many submissions they had received in response to the RFP's; MR. WORLEY stated that he would have to ask MR. PUCKETT that question and get back to the committee with the answer.

MR. WORLEY stated that there were a number of services they were getting for the 5.5 basis points, including statements, call center, vesting, audit services and reporting. He noted that for investments, they procure the trading agreements, pricing, unitizing, reconciling, daily trading, and they would be integrating the self-directed brokerage providers. He said they also provide advisor services through licensed retirement plan advisors that had been made available to the participants.

MR. WORLEY said the remainder of the fees collected were shared by the Division of Retirement and Benefits and the Treasury Division for the investing and administration. He noted that they annually reviewed the costs versus the fees collected and evaluate them to ensure the plans had the funds necessary to meet expenditures. He said that SBS does not pay for any other costs except what is for SBS, and TRS does not pay PERS costs.

CHAIR WILLIAMS asked what the DC members were getting for that portion. He stated that the DC Plan members were less confident as to what they were getting and asked for a description of those services; MR. WORLEY stated that the services provided by the Division of Retirement and Benefits to the membership was counseling, they were eligible for occupational death and disability, retiree medical, and HRA. He noted that he was not part of the service side and would have to defer to MR. ACEVEDA. He also noted that there were a number of services behind the scenes that members may not see and suggested that be a separate item to discuss at the next meeting.

MR. WORLEY said that in December, at the request of the committee, there would be a discussion about the cost allocation plan and how it was used. He noted that Maximus was the contractor for the state for the cost allocation plan and would be presenting on the purpose of the allocation plan, it's necessity and how it impacts the Division. He noted that the cost allocation plan was not just for allocating costs of the plan but also that cost allocation plans are used on the federal contracts.

MR. WORLEY said that the next item for discussion was the Benefits and Retirement System, (BEARS) project. He said the BEARS project was the system replacement, that the current system was outdated and that they were on year one of the three-year project and noted that they were still on track for the October 2023 kickoff.

MR. WORLEY said that each participating plan - pension and healthcare - pays a portion of the cost of the replacement because all information received from employers, DB and DC, that flows into the system, they have to track everyone's contributions, how much service they were having, how much money they had at Empower or how much they had in their DB account. He said they had a number of subsystems used to track things and they would have that information under one platform. So, all information that was currently maintained in CRS and other databases would all be in BEARS.

MR. WORLEY said the cost of the project was $30 million which was allocated amongst multiple plans. He said the rates could be changed, increased, or decreased based on a review of costs to each of the plans, that they analyze the fees collected versus the costs incurred each year. He noted that he did not see a fee change until the project was completed.

MR. WORLEY said they annually review the funds received and the funds spent and as noted in March, the DC plans had maintained good cash flow to cover the costs and allocated project costs. He said the plans were also self-insured so if they incorrectly pay a beneficiary, they have a buffer in place to cover the costs.

CHAIR WILLIAMS asked if MR. WORLEY could give a sense of the size of the buffers; MR. WORLEY stated that he did not have that information available but would report back to the committee on that.

MR. WORLEY went on to say that fee changes for the DC and Deferred Comp plans were requested and approved through the plan administer. That by statute, the plan administrator was the director, MR. DESAI, that public notice was not required. He noted that if they needed to change the basis point fee, they would submit a request to MR. DESAI and work with the committee prior to the changes so they would be aware of what that basis point change would be. He said they could also make the change effective either calendar or fiscal year.

MR. JOHNSON asked if it related only to the pension side, that the discussion did not relate to allocation of the costs as it related to the health plan; MR. WORLEY said that the discussion related to the 11 basis points that was being collected for PERS and TRS, DCR, SBS and then the 17 which deals with member individual accounts.

VII. DIVISION OF RETIREMENT AND BENEFITS UPDATE

A. Chief Pension Officer Report

1. **Brokerage Window Implementation**
2. **DC Plan Amendments**

MR. ACEVEDA introduced himself as the Counseling and Education Manager, with the Division of Retirement and Benefits and noted that he would be presenting on MR. PUCKETT's behalf.He said that the the self-directed brokerage account (SDB) notifications had been sent out, which provided general information regarding the rules of enrollment process, tax liability, and consequences and valuation of accounts, as well as notice that there was no authorized third-party access to individual members' accounts.

CHAIR WILLIAMS asked for confirmation that the public notice had been published; MR. ACEVEDA stated that it had been; CHAIR WILLIAMS asked when it would close; MR. ACEVEDA said it goes live on November 15th so the closing date would most likely be November 14th.

MR. ACEVEDA said that he was not provided information as to questions or concerns from the general public as he was brought on board at the last minute; CHAIR WILLIAMS stated that it sounded like it would be over 11 months from the intended target date, then asked if it was something members could select and activate on November 15th; MR. ACEVEDA said that was accurate.

MR. ACEVEDA said that some amendments had already passed to the 457 Deferred Compensation Plan which was effective August 30th. He noted that the amendments that were sent through would allow them to provide in-service distribution to the 457, which had been a concern as to allowing individual members of the Defined Contribution retirement plans to be more prepared going into retirement versus having to wait 60 days after retirement to access their accounts. He noted that in the past there had been a gap in which members were not able to access their money. He said they did allow in-service distributions upon reaching and exceeding the age of 59.5, upon any birth or adoption, and a one-time small-only close-out balance of amounts smaller than $5,000.

MR. ACEVEDA said that they had received a total of three quarters of a million dollars in requests that they had already processed. He noted that members who had met the requirements were pleased that they were allowed the window to access the funds prior to retirement which allowed them to better prepare for retirement as they transition into retirement; CHAIR WILLIAMS asked if most to the three quarters of a million was in the small account range and if he had a breakdown of what the requests were related to; MR. ACEVEDA said he did not know what the exact requests were, but that the largest amounts were for members above age 59.5; CHAIR WILLIAMS asked if there was documentation on those requests -- if it was to roll over into another type of a retirement account or what the requests related to; MR. ACEVEDA said that they did not see what the distribution requests were from, that they would have to request a report from Empower.

B. Empower Update

MS. DAVIDSEN started her presentation with an update regarding general delivery mailboxes. She reminded the board that there are 463 people in rural areas that have general delivery mailboxes, which meant that they had to go through the call center to register for the website. She noted that they had a project in the works that would be completed by the first quarter of next year that would remove that item from registration.

MS. DAVIDSEN said there were new employers added which were Sitka School District, Bristol Bay, and Kodiak Island. She noted that she and MR. ACEVEDA had been working with the city attorney in Fairbanks to encourage their participation in the 457 Plan as well. She said that they were working on ideas on how to get more people to join and that the DRB and the Empower field team were doing outreach as well. She said that they had been discussing a roundtable with other topics to bring them to the meetings.

MS. DAVIDSEN said that they were also working on a staffing model. She said that during Covid they had some turnover in their field. She said that when that happens, there is an e-mail response that goes out with who they should contact and on their website there is a flier with the faces of the RPA's as well as their direct e-mail addresses; CHAIR WILLIAMS asked for confirmation that the contact information was updated on the website and that the e-mail of the former employee had a forwarding message that the employee no longer worked there with the contact information of the correct person to contact; MS DAVIDSEN confirmed that was so.

MS. DAVIDSEN stated that the last thing she wanted to touch upon was a subject that had been broached at the last meeting which was the commissions disclosed on annuities. She said the type of annuities that were utilized for the Alaska Plans, were immediate annuities. She said there were no commissions, which meant no disclosures necessary. She said that any fee that was associated with an annuity was part of the actuarial calculation, which included the various data points with age, interest rates, and life. She said that members should shop annuities by getting quotes. She stated that the comparison would be in the payment amount and the period. She noted that there could be annuities that were immediate annuity with no commission but with front-end fees which are disclosed by the different companies. She said they encourage their members to understand that the key to annuities is to compare the quotes with other places.

CHAIR WILLIAMS noted that they had discussions about brokerage windows in the past and that for every transaction there would be a charge of $25 and the response from the committee was that there were several places that members could go without having to pay commission fees. He said that it would be nice to have a way to compare what was out there to ensure they were delivering strong annuity options to the members.

MS. DAVIDSEN said that another topic to be revisited would be the shopping services that are available that do just that.

CHAIR WILLIAMS said that if they could get some sort of comparison of the current Empower annuity option with a comparative, it would be something that he would like to see.

VII. TREASURY DC UPDATE

A. Target Date Funds Update

MR. HANNA said that they had been in active discussions with T. Rowe for months and they had proposed three options. He said the first was the existing set of four investment building blocks, but at a cost that would reflect the growth of the plans, which he thought would be the lowest of the cost options. He said the next two would be incrementally higher. He said Option 2 was increasing the building blocks from four to seven with a lower cost point. He explained that with that option, the equities would be split into large cap, small cap, and mid cap, and then add three bond funds. He said there would be an aggregate bond fund, a long Treasury fund and a TIPS fund.

MR. HANNA said that Option 3 was to further increase the building blocks to nine which would include adding high yield bonds to the mix, some U.S. active equity exposure that T. Rowe had been able to generate positive excess returns over time; CHAIR WILLIAMS asked if there was a slide presentation; MR. HANNA stated that there was not, that the plan was to have T. Rowe do the presentation of the proposal at the December meeting. He said that T. Rowe has a pricing board that would be meeting in October to get actual pricing for the three options, and they would take the committee through those options. He said one change that was notable was there were significant glide path differences between what they offer as their off-the-shelf product and what the plan offers.

MR. HANNA said that once T. Rowe shows them the options and what they were thinking, the committee could have a fuller discussion as a group; CHAIR WILLIAMS asked if he would give an overview of the different scenarios again; MR. HANNA said that Option 1 was if no changes were going to be made to the building blocks that were existing at that time, what was the cheapest they would be willing to offer. The other two options were variations of the first. He said those were intended to bracket the discussion of lowest cost option, most expensive option with as many perks as could be included and then something in the middle that achieves a moderate fee savings with impactful building blocks.

MR. HIPPLER asked if page 62 of the slide deck that lists about 20 funds was what he was discussing with T. Rowe; MR. HANNA said that was correct.

CHAIR WILLIAMS asked if they decide to be more aggressive or change, would it be a gradual change that gets to the target and would looking at different styles of target date funds for different years add complexity and not help with the costs or was that ever a possibility; MR. HANNA said that they may be better off having one set of options. He also noted that he had discussions with Callan and they could perform an analysis on it as well from a sufficiency perspective and a modeling perspective.

B. Update SmartSpend Implementation

MS. PREBULA stated that they had a successful implementation on July 1st of the SmartSpend 2020 and 2015 funds. They had also received an update from J.P. Morgan that indicated that they were going to append the SmartSpend funds to their traditional target date offering, SmartRetirement. She noted there would not be any actual change to the funds except for a name change. SmartSpend would become J.P. Morgan SmartRetirement Blend 2020 and 2015 and there would be a ticker change for the 2020 fund. She said that Callan mentioned in an e-mail that it would result in greater adoption and lower fees over time hopefully; CHAIR WILLIAMS asked if SmartSpend was a target date fund that gave a lot of flexibility in how a person would take their money out; MS. PREBULA said that it was more like a retirement income fund. She noted the SmartRetirement Funds have vintages that will be a sort of a retirement income plan that continues their glide path out 35 years past their vintage date; CHAIR WILLIAMS then asked if there would be a renegotiation for the recordkeeper, or would there be a way to get at some of the things they cannot get to now and make more low-cost, quality offerings to the members; MS. PREBULA said that in following advice from Callan they would have an initial rollout with ETF's and no-load funds just to get it rolling. She said they discussed the next rollout as having low-cost index funds from those providers.

MR. HANNA said that part of that request would be more granularity in terms of how much control they would have over what makes it in and what makes it out to make sure they do not overpromise.

IX. REVIEW COMMITTEE CHARTER

CHAIR WILLIAMS asked if there were any questions or comments about the charter; MR. HIPPLER asked if the charter stated within it, that they were supposed to have a discussion about the review of the charter periodically; CHAIR WILLIAMS confirmed that it did; MR. HIPPLER said that he had no comments.

X. FUTURE MEETINGS

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

XI. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE - None

XII. PUBLIC/MEMBER COMMENTS

MR. JOHNSON asked CHAIR WILLIAMS if he was satisfied with the reports in respect to the open brokerage window as to if they would be coming into effect in mid-November; CHAIR WILLIAMS explained that it was in the public comment phase and the expectation was that it would be open on November 15th and that he was satisfied that it was happening; MR. JOHNSON said that he hoped that it would come to fruition on November 15th.

MR. JOHNSON commented that he thought they should be cautiously optimistic of a November 15 startup and hoped that everyone remained diligent on getting the regulations adopted and in place.

CHAIR WILLIAMS noted that before the Board meeting was over, that perhaps they could get an update on exactly when public comment opened and closed and if there were any other delays that could be in the works.

MR. WORLEY confirmed that notices were published September 16th and were to end October 15th, which would give an effective date of November 15th.

MR. JOHNSON explained that the process would be to get public commentary, then the regulations would be promulgated, which might include changes, then it would go to the AG's office for the final vetting, then the additional 30-day rule would come into play. He noted that he was a bit worried about the math on the actual effective date.

CHAIR WILLIAMS said again that he thought it would be great to get an update to t the Board before Friday.

XIII. ADJOURNMENT

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

The meeting was adjourned at 11:20 a.m.

ATTEST:

____

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.