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

Videoconference

MINUTES OF
December 1, 2021

Wednesday, December 1, 2021

ATTENDANCE

Committee Present:	Bob Williams, *Chair* Allen Hippler Robert Johnson Dennis Moen Donald Krohn

Committee Members Absent:
None

ARM Board Trustees Present:
None

Investment Advisory Council Members Present:
Dr. William Jennings

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Brian Fechter, Deputy Commissioner
Michelle Prebula, Public Equity & DC Investment Officer
Scott Jones, Head of Investment Operations, Performance & Analytics
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
Jim Puckett, Deputy Director, Division of Retirement and Benefits
Kevin Worley, CFO, Division of Retirement and Benefits
Roberto Aceveda, Counseling and Education Manager, Division of Retirement and Benefits
Emily Ricci, Health Care Policy Administrator, Division of Retirement and Benefits

Traci Walther, Accountant V, Division of Retirement and Benefits
Amanda Pillifant, Commissioner's Office

ARMB Legal Counsel Present:
Benjamin Hofmeister, Assistant Attorney General, Department of Law
William Milks, Assistant Attorney General, Department of Law
Kevin Dilg, Assistant Attorney General, Department of Law

Consultants, Invited Participants, and Others Present:
Steve Center, Callan LLC
Paul Erlendson, Callan
Andrew Jacobs van Merlen, T. Rowe Price
Charles Shriver, T. Rowe Price
Chris Dyer, T. Rowe Price
Victoria Fung, T. Rowe Price
Liz Davidsen, 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. KROHN, 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. KROHN seconded the motion. The agenda was approved without objection.

B. APPROVAL OF MINUTES: September 22, 2021
MR. JOHNSON moved to approve the minutes of the September 22, 2021 meeting. MR. KROHN seconded the motion. The minutes were approved without objection.

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

VI. MEMBER SERVICES & FEES
MR. WORLEY noted that on pages 12 and 13 of the packet was the discussion of fees charged each plan. He said Deferred Comp was 17 basis points with no annual fee charged to members. For the SBS and PERS and TRS DCR plans, it was 11 basis points with a $35 annual fee for active and a $25 annual fee for inactive members. He said the discussion on why fees were collected had been previously summarized and documented. He said page 13 contained an example of what would

happen if they changed the Deferred Comp Plan from 17 basis points to something similar to SBS, PERS, and TRS. He said he had based it on the average annual value of the DCP. He said the fees collected under the scenario example was approximately $1.8 million, with $609,000 going to Empower. The remaining balance of $1.3 million would stay in the Division of Retirement and Benefits and Treasury Division as funding to pay for costs of operating the plans, administrative and investments. He explained there would be a decrease to members charged of about $294,000, but that it would impact funding to DOR and DRB in terms of services and contract work.

CHAIR WILLIAMS noted that there was such a difference in the fees between SBS, PERS and TRS DC, and Deferred Comp and asked if there was a rationale for the difference of 54.5 percent; MR. WORLEY said the DCP was set up in the 80's and was a much smaller member plan and people would not be enrolling into the plan versus the DCR Plan where everyone was enrolled, so it had a much higher base to allocate costs to; CHAIR WILLIAMS said that they needed to figure out how that could be adjusted before the end of the BEARS project, that he thought MR. DESAI could change it; MR. WORLEY said that required going through the plan administrator for approval.

MR. WORLEY explained that if they adjust the rates lower one year then they would have to raise rates the next year and they wanted to keep it consistent like the Board had done with rates for PERS and TRS, so members knew what they were paying. He said that it would be helpful to speak with other employers that had gotten into DCP to find out who was paying what costs, or what types of investment options they had that may be different then what was offered.

MR. WORLEY said that on pages 14 through 16 was the Division of Retirement and Benefits list of services that they provide from the retirement section, member services, member benefits, and from the accounting section as well.

CHAIR WILLIAMS asked if a person was in deferred comp, they were not getting anything different in terms of services; MR. WORLEY indicated that there are a number of similar services provided for Deferred Compensation Plan that are provided to defined contribution funds and listed some examples. He said that it was hard to compare their plan with another plan without knowing what kind of services and reports they provide and investments they have versus what we are doing.

MS. LEARY noted that on page 17 of the packet was the services for the participant-directed investments that the Treasury Division provides broken out into sections for accounting, portfolio, Middle Office, compliance, and liaison function.

CHAIR WILLIAMS said when they had the discussion, it was mentioned that the split was between Treasury and Retirement and Benefits. He then asked how it was decided how that split would go, was it 60/40, or was it 50/50, or how was that usually divvied up; MS. LEARY said that from the cost allocation plan, they had an overview of staff first and where they work, and that builds their allocations. She said that was one of the largest costs that they had when they allocate their indirect costs. She said there were some advisory costs specific to the ARM Board, that are allocated to the funds based on the assets under management for each of the funds across all of the retirement asset funds. She said they also had centralized services, like most division do, such as IT and HR which were allocated a certain percentage. She said Maximus had done work on centralized costs for the

Department of Revenue, they reviewed it and then those costs are allocated across the funds. She said it was more dependent upon the work performed, whether it's specifically for retirement funds or participant-directed versus nonparticipant-directed funds. CHAIR WILLIAMS asked if there was anything where the fees for Deferred Comp should be more than 50 percent higher than for the other plans - was there more of a cost there than other things, or was it similar between all those plans; MS LEARY said that because they were based on assets under management for their costs, there was a higher set of dollars in one fund over another, that fund would get a larger percentage of the costs. She added that from an investment standpoint, they base that on the industry standard.

MS. LEARY said they had specific direct costs which they assign to different funds. She said that if there was work being performed for a specific state issue, the state funds would get those costs allocated to them, as opposed to the retirement plan. We have done a lot to reduce our costs over the last five to eight years, and how we allocate them to the funds. She said they were very mindful of trying to make sure the costs go to the place where their services were being provided.

VII. TARGET DATE FUNDS – T. ROWE PRICE

MR. HANNA invited MR. DYER of T. Rowe Price to discuss potential improvements to the target and balanced funds.

MR. DYER explained that they had been working closely with MR. MITCHELL (former CIO), MS. PREBULA and MR. HANNA to develop the proposed enhancements to the structure and investment strategies for the target date options. He said that he was joined by MR. JACOBS VAN MERLEN, the portfolio manager of the target date strategies and MR. CHARLES SHIVER, who was the lead portfolio manager for the Alaska balanced and target date portfolios. He noted that they had been partnering with the state for 30 years.

MR. DYER referred to slide 4 of their presentation which showed a chart of the improvements and enhanced investment options and structures of the target and balanced funds over the years.

MR. VAN MERLEN said target date investing was central to what they do and that the journey really started with their partnership with the State of Alaska over 25 years ago. He then jumped to slide 11 that showed the performance versus other options in the market and performance vs. peers. He noted that slide 12 was representative of the Alaska funds versus peers and noted that it showed top quartile performance for the Alaska trust for three, five and 10 years. He noted that slide 13 showed the Alaska 2020 trust versus the S&P target date 2020 index for the past 20 years.

MR. VAN MERLEN moved to slide 14 stating that it was representative of how they could compound as little as 25 or 50 basis points of value over the life cycle and how that could lead to significant enhancements and outcomes for the participants. He said that 25 basis points could get about two years of extra spending and 50 basis points up to five years of extra spending in retirement due to the power of compounding.

MR. SHRIVER noted that slide 16 showed the two options presented to the Board. Option 1 was to focus on enhancing the design of the Target Date and Balanced Funds to improve the participants outcomes and also lowering costs through three main elements: introducing measured allocations to actively managed strategies to increase the potential for outperformance; enhancing the investment profile, particularly within fixed income along the glide path; and costs savings associated with structural efficiencies by transitioning to using T. Rowe Price trusts. Option 2 focuses more on lowering costs, through the utilization of T. Rowe Price Index Trusts which has the benefit of scale as well as the benefit of the enhanced investment profile within fixed income.

MR. SHRIVER said that slide 17 showed the current structure of investment options explaining that the green boxes at the bottom reflected Alaska's dedicated trusts: money market, bond trust, equity and international equity trust that served as the component portfolios for the full suite of 12 target date trusts as well as the balanced and long-term balanced trusts. He explained that slide 18 showed the overview of the framework that was being proposed, getting the cost savings resulting from the benefit of scale across a larger asset base. He said they highlighted the range of diversification reflected within the four trusts discussed earlier. He discussed Alaska's current profile and noted differences between Option 1 (TRP BBT + Active) and Option 2 (TRP BBT), shown in the second and third lines respectively.

MR. SHRIVER said slide 19 showed proposed enhancements of Option 1 to introduce actively managed components in U.S. equity, international equity, and high yield bonds. And then, importantly, by using the commingled trusts, it gives flexibility in the fixed income area, which lets us tailor the exposures to better manage to the objectives and risks associated with various points along the glide path. He said slide 20 explained the possible results of Option 1 and that the model was based on the 2020 investment profile which was 54 percent equities and 46 percent in fixed income. He noted that Option 1 relative to the model based on the current profile showed consistent outperformance.

MR. SHRIVER said that slide 21 showed the objectives of Option 2 which focused on cost savings associated with building block trusts, the comingled T. Rowe Price trusts, which gave flexibility within fixed income. He said it allowed adjustments to allocations to Treasury longs early in the life cycle and to have more in short term TIPS within fixed income later in the life cycle.

MR. SHRIVER explained that slide 24 contained further details on the proposal considerations including cost considerations. He said for the current profile, there was approximately 10.75 basis points for investment as well as operational expenses. The total cost for Option 1 would be 9.92 and noted that they were able to provide that additional enhancement through active management in high yield bonds at a lower cost relative to today. He said Option 2 focused on lower costs at 5.75 basis points but did not have the benefit of the active management.

MR. HIPPLER asked if it would increase the number of options; MR. SHRIVER said it did not, that it changed the underlying components. He explained by using the T. Rowe Price building block trust, it becomes more scalable and if they introduced new options that might have lesser assets, that becomes easier to achieve.

MS. PREBULA added that the number of options would remain the same that it was just the underlying building blocks to the existing target date funds and balanced funds that would be updated with this investment policy.

CHAIR WILLIAMS asked what the meaning of the tilde was; MR. SHRIVER explained that as an example, operational experiences were fixed as well as asset-based costs, what was higher for one would be higher for the other.

MR. HIPPLER asked if the proposal was to change the structure of the target date funds; CHAIR WILLIAMS and MR. SHRIVER responded affirmatively.

CHAIR WILLIAMS said that it was one of the more significant decisions as a DC Committee to forward to the Board due to most of the DC members were defaulted into a target date fund if they did not select something.

MR. JOHNSON asked if they were going to hear a recommendation from MR. HANNA and MS. PREBULA as it was an action item: CHAIR WILLIAMS confirmed they were.

MS. PREBULA said they recommended that the Defined Contribution Committee recommend that the Alaska Retirement Board direct staff to amend the contract with T. Rowe Price to implement Option 1, the T. Rowe Price building block plus active structure. She explained that the option reduced fees and offered additional potential for increased excess return via active management. She said they had discussed it with Callan who agreed with the recommendation.

<u>MR. HIPPLER moved to approve the recommendation.</u> <u>MR. KROHN seconded the motion.</u>

MR. JOHNSON asked to hear from Revenue as to how they evaluated the two options.

MR. HANNA explained that the target date funds had been constructed approximately 20 years prior with the idea of the value of active management and with focus on providing something that was low cost to participants. He said that T. Rowe was an exception to the rule in terms of the value of active management. They had added quite a bit of value via active management for most of the building blocks they managed on behalf of the broader spectrum of target date funds. He said they saw value in some of the additional offerings that were in Option 1 that were low-cost options for participants.

DR. JENNINGS commented that T. Rowe Price was a thought leader in target date funds and Alaska was part of that process. He added that the dynamic asset allocation they talked about adding was also compelling. He said the bottom line was they were using the slack that the less expensive trust offered to bring an additional tool kit to the table and found that compelling.

A roll call vote was taken, and <u>the motions passed unanimously.</u>

VIII. TREASURY DC UPDATE

MS. PREBULA announced that they had decreased the pricing for the Brandes option. She explained that Brandes and Baillie Gifford made up the international equity option in the DC Plan and that they had renegotiated fees with Brandes decreasing them from 33 basis points to 30 basis points effective

October 1st.

MS. PREBULA also explained that there were changes in the fact sheet design on the Empower website. She said that Empower uses Morningstar to feed the fact sheets for investment options in the DC plans and those sheets were being restructured. She was not sure when updates would be reflected outside the firewall.

IX. DIVISION OF RETIREMENT AND BENEFITS UPDATE

A. Chief Pension Officer Report

1. Brokerage Window Regulations & Implementation

MR. PUCKETT began by reminding the Board that the implementation of the brokerage window required new regulations in the Public Employees' Retirement system, the Teachers' Retirement System, Supplemental Annuity Plan, and the Deferred Compensation Plan.

MR. PUCKETT explained that a public notice for the regulations were published on September 16th and 30 days after the publication of the notices, they were able to give adoption orders to the Commissioner who then signed the orders for PER and TRS. He said that he was then instructed to prepare regulations for Judicial and the Commissioner signed those on October 19th. He was then told that he was given incorrect information and to consolidate the three packets into one packet which required a new adoption order to be signed by the Commissioner. He said the Commissioner signed the adoption order on October 29th. He said per statute regulations for the Division of Retirement and Benefits, the orders were effective 30 days after being approved by the Commissioner, which made the tentative go-live date November 29, 2021.

MR. PUCKETT said on November 18th he learned from the Department of Law that there had been a delay with the SBS and the DCP and the adoption order the Commissioner had signed on October 29th had been rescinded and needed to be executed. He said he then instructed Empower to remove the go-live notice on their website. He said the Commissioner signed the rescinded order on November 30th.

MR. PUCKETT said they needed to have the TRS and PERS approved again, and that public notices would go out on December 9th for the SBS and the DCP. He said that when the Commissioner approves the PERS and TRS again, they could go live 30 days after adoption. He said that SBS and DCP would still be in the public notice period and recommended having all four go live at once versus staggering implementation.

MR. JOHNSON asked why the Commissioner's promulgation orders were rescinded - if there was a legal reason; MR. DILG said there was also the implementation of the self-directed brokerage with the Judicial Retirement System which was a defined benefit system. He said they had verified with the Division of Retirement and Benefits that there had been no intention to open a self-directed brokerage in a defined benefit system. He said there would be legal complications with doing so because a defined benefit system is managed differently than a defined contribution system. He explained that PERS, TRS, and JRS were all adopted in the same order, and they had to rescind the order to be able to attempt to mitigate against the potential of opening a self-directed brokerage inside the Judicial Retirement System. He said it was their impression that there was an intention to have the self-directed brokerage available for the SBS and the DCP and there had been no public notice on those two plans.

CHAIR WILLIAMS said that it should have been discussed a year ago when they had thought they would be going live in early January of 2021. He said that he had been getting angry phone calls and texts from frustrated people. He then asked why things had not been sorted out a year ago; MR. DILG said that he had been assigned the project in November of the current year as part of the regulations and legislation section, so he was not the best person to discuss the issue. He said he did speak with the DC Committee in March with regards to the project and the Department of Law had not received any draft regulations from DRB. He noted that he had not been involved in the project beyond the initial meeting of the Defined Contribution Committee in March.

MR. DILG said that developing a self-directed brokerage system inside the Public Employees' Retirement System that was subject to constitutional protections was a complex legal process. He said that they had spoken with Ice Miller who advises multiple public pension systems, and they were unaware of any other public pension systems that had opened a self-directed brokerage in their primary retirement accounts. He said they had discovered a couple of states that had allowed that to occur in deferred compensation and other optional retirement accounts, and they were able to look at those regulations which assisted DRB in the development of the regulations.

MR. DILG noted the SBS and the deferred compensation regulations did not go out for public notice as a result of a review by the regulations section in the Department of Law. Law determined that the ARM Board would be responsible for issuing those regulations pursuant to 37.10.220, and he thought that investment options would be selected by the ARM Board and the rules regarding those options would be developed by the ARM Board. He said that caused concern within the Department of Law that the ARM Board was the entity that had the authority to issue the regulations for the SBS system and the deferred compensation system. He said after reviewing the matter with MR. MILKS, they believed that there was concurrent authority for the DOA Commissioner to issue the regulations under the SBS and Deferred Compensation Plan.

MR. DILG said there were several issues that Law was researching regarding the issue and found that what makes Alaska different than other states was that Alaska had a constitutionally protected retirement system. He said that he understood the frustration about the length of time the process was taking.

MR. HIPPLER asked why they needed to launch it all at once, that if they were ready to go with some of it, then they should move forward, noting that it might lend credibility to the idea that it was actually going to happen. He said that he did not know what authority the ARM Board had over the launch but encouraged the Board to try and push forward.

MR. PUCKETT said that they could do it that way, that he had already checked with Empower and they said they could launch PERS and TRS first, and SBS and DCP could go live at a later date, after the public notice and regulations for those became effective.

MR. PUCKETT explained that earlier in the process he had received regulation samples from other states and had been working with Law and had put in a formal request for the regulation packet to be opened on May 8th. He said he was instructed to develop three packets, which he did and submitted them to Law for their final review. He was then told the packets needed to be consolidated into one packet, which he did, and Law signed off on it on October 29th. He said with no further delays, the SBS and the DCP public notice would start on December 9th and end January 9th, 2022, and the Commissioner would be able to sign it at that time. He said if the Commissioner signed it immediately, they could go live on February 2nd.

MR. MILKS said that he understood the frustration of the delays. He said that they had initially thought Defined Contribution and SBS regulations would have to be issued by the Board, which the Board has the authority to do. He said that he and MR. DILG reviewed it further and concluded that the administrator also had the authority.

MR. MILKS explained that it was important to recognize the concept of a self-directed brokerage plan being implemented within a public employee constitutionally protected pension plan was something that they checked with outside legal counsel on as there's not much experience with that. He said he recognized that there were continual decisions from the Alaska Supreme Court on the parameters of the constitutional protection for public employee pension plans, and those discussion were starting to merge into how those protections would work for defined contribution plans. He said that it was important for it to be done correctly and regarding the idea of one of the plans being a pilot for the plan, the deferred compensation plan might fit best because it was least likely to be a core retirement plan. He said he and MR. DILG would be working with the Division of Retirement and Benefits to bring the project to a conclusion.

CHAIR WILLIAMS said he thought there was a broad cross-section of members who were excited about it, and they were not often excited about everything that goes on in the plans. He said the deferred compensation plan would have to go through a longer process and the ones that seem would be active sooner were the PERS and TRS Defined Contribution plans. He then asked what would be the earliest for that to happen; MR. PUCKETT said that the Commissioner would need to sign a new adoption order for the DC TRS and PERS and they would have to wait 30 days after that before it could go live.

CHAIR WILLIAMS said that he was in favor of getting the self-directed brokerage window working as soon as they could. He said they would see how that worked out and would bring the others in.

MR. JOHNSON said that he concurred with CHAIR WILLIAMS but did not think the Board had the regulatory role. He said that he hoped that whatever could be done, would be done as quickly as possible.

MR. HIPPLER suggested that going forward they would have the brokerage window and timelines as a standing item to review to keep the sense of urgency on the issue.

B. Educational Outreach

MR. ACEVEDA noted that included in the Board packet was statistical information of their telephonic and videoconference (Microsoft Teams) appointments for quarters 1 through 3 for 2021. He said they had moved to in-person appointments, but that most people had preferred telephonic and web-based counseling sessions.

MR. ACEVEDA said there was also a section addressing education requests and cooperative appointments with Empower. He said that former Chief Pension Officer Kathy Lea had instructed staff to provide educational videos and they have continued to do those as well as some shorter videos which contain information for the retirement plans and plans offered through the State of Alaska. He said that the seminars he conducted previously on PERS and TRS were normally 2 – 2/12 hours, and they had reduced them down to 10 to 20 minute videos which were provided on demand and on their YouTube webpage.

MR. ACEVEDA said they were working with Empower as well as in conjunction with Social Security and Medicare representatives to provide a more comprehensive educational opportunity for members and plan to continue with that approach.

C. Empower Update

MS. DAVIDSEN said they had added J.P. Morgan SmartSpend, and that flyer would go out to encourage people to educate themselves on their options. She noted the general delivery address enhancement for the members who were in rural Alaska would be going live in December. She said they had also added different distribution enhancements. She said the field meetings had been successful, that they had tried something different by bringing in DRB, Empower, and representatives from Social Security to talk about windfall elimination provision and other issues of importance. She said they focused on the TRS group and PERS separately.

MS. DAVIDSEN said that they were still having individual retirement readiness review meetings and had just started a great partnership with Mike Vieira in the Sitka School District. She said they had two retirement plan advisors go to Sitka and give general presentations and have one-on-one meetings as well. She said Mr. Vieira was very excited about the plans and they were going to continue to partner with Sitka and plan to do the same with other school districts.

MS. DAVIDSEN said they had eight new enrollments pending discussion. She said they had spoken with the board of the City of Fairbanks in September and had a meeting with the University of Alaska. She said they were also talking with school districts in Kenai Peninsula, Yukon Flats and Denali and had also restarted conversations with Fairbanks North Star Borough. She noted the field team had been doing continual outreach to all who had not adopted as well has those who had joined. She said they had also been meeting with the NEA/SOAR group to work with them on different retirement needs.

MS. DAVIDSEN said they had presentations about the plans and about investing. She said it all depended on what the employer needed. She said the advisors act as a fiduciary in the field based on their licenses and have one-on-one appointments getting people to look at their accounts to see what they need to make sure they were retirement ready.

MS. DAVIDSEN said they had been working in partnership with the Division of Retirement and

Benefits on all the different options available in the state. She said they were very excited about 2022 and the new Empower experience with Personal Capital integrated into it that would show the entire financial wellness picture, which was a great tool for the members.

MS. DAVIDSEN said for strategic planning for 2022 they would sit down with DRB and go through what the plan was, what they needed to work on, and come up with the plan for 2022 as a group.

CHAIR WILLIAMS said that he appreciated that representatives had gone to Sitka and that Mike Vieira was excited about the brokerage option. He said that when he went through the site, he thought there were opportunities for transparency, such as what had fees and what did not have fees. He said he had to almost sign up completely before he was able to see there was 50 basis points. He said he thought that the cost of the options needed to be very clear; MS. DAVIDSEN said that they would work with DRB to get the right messages out.

MR. HIPPLER suggested that CHAIR WILLIAMS' question about transparency be a follow up item for their next meeting.

D. DC Health Plan Update

MS. RICCI said that she was the Chief Health Administrator in the Division of Retirement and Benefits and had provided an updated presentation in the packet beginning on page 71. She noted that it was similar to what she had presented the prior year. She said that her primary focus would be on the basic numbers as to what the health plan was experiencing and highlighting differences between the DC health plan and the defined benefits health plan.

MS. RICCI presented slide 2 located on page 72 of the packet which gave an overview of the Defined Contribution Retiree Health Plan (DCR) explaining the plan had been established in 2006 for PERS Tier IV and TRS Tier III members, and currently had 161 participants. For perspective, she said the Defined Benefit Retiree Plan (DB) had approximately 70,000 members. She said the cost share provisions of the plan were periodically indexed to reflect health care cost increases, which was the difference between the DCR and DB plans.

MS. RICCI said that one of the important takeaways was that healthcare contributions for DCR-eligible employees were made entirely by the employer until the retired member accessed the benefit.

MS. RICCI said slide 4 discussed eligibility for the plan and that was one of the most important differences to understand between the DCR plan and the Defined Benefit Health Plan. She explained that to be eligible for medical coverage, a member must have 10 years of service and be Medicare-age eligible or have 25 years of service and be any age if they were a police officer or firefighter or have 30 years of service and be any age for all other members, however, a member must also have worked the prior 12 months and retired directly for the system in order to be eligible.

MS. RICCI explained that in the Defined Benefit Plan, a member could be covered essentially by the Alaska Care plan twice, both under their coverage and a spouse's coverage. The DCR plan, the member would be covered once. She said it had to do with coordination of benefits that was built into the plan from the beginning.

MS. RICCI then moved to slide 5 to explain the Claims and Enrollment. She said there were currently 161 members –comprised of 117 actual retiree subscribers, and 44 dependents. She said there was a rolling 12- month period from August to July, and with 161 members in the health plan, the experience was highly variable.

MS. RICCI explained there was a large increase in the rolling 12 period from 2020 to 2021 related to pharmacy costs or prescription drug costs for oncology and neurological situations. She said they were seeing those costs increase in the Defined Benefit Plan, in their employee plans, as well as the DCR Plan.

MR. HIPPLER asked if the jump in pharmaceutical costs was indicative of a trend or if she believed it was the small number of members; MS. RICCI said that in every plan they were administering, they were seeing a notable increase in the proportion of specialty medications and the contribution to overall costs; MR. HIPPLER said for the larger plans, they were seeing projected drug costs falling and asked if it was correct that the experience of the DCR plan does not indicate that the larger plans are going to experience the same degree of increase: MS. RICCI said that was correct and reiterated that it was a small number of participants with catastrophic diagnoses which resulted in a substantial increase in pharmaceutical costs.

MS. RICCI moved to slide 6 that showed an overview of the DCR Plan Highlights. She noted one of the key differences between the plans was that there is no lifetime maximum for the Defined Contribution Plan whereas there is a lifetime maximum of $2 million for the Defined Benefit plan.

MS. RICCI said slide 7 showed one of the largest differences between the DB Plan and DCR Plan was that the DCR Plan was set up to mirror the employee plan which was reflective of several modern plan features including coverage of preventative care or wellness services, expanded travel benefits, and chiropractic or rehabilitative care.

MS. RICCI said slide 8 showed that employees did not contribute to the DCR health trust while working, but that once retired, the retiree pays 100% of the DCR premium costs, if accessing health benefits prior to Medicare-age eligibility. Once retired and after Medicare eligibility, retirees pay a percentage of the premium cost based on years of service.

MS. RICCI said slide 9 highlighted the Medical/Rx monthly premiums for 2020 and 2021. She said they had remained consistent due to the small population. She noted that they were still using proxy data from other health plans and would continue to do so until the plan membership increased or until the actuaries feel they had sufficient actual data to make changes to the premiums. She said the slide showed a large difference in premiums for when a member was Medicare eligible versus ineligible, which was reflective in the cost of the plan and the costs of the benefits to the Trust.

MS. RICCI said slide 10 discussed the DCR health reimbursement savings account which was available to the members once they became eligible. The account could be used to help cover out-of-pocket medical expenses or the costs of their premiums.

MS. RICCI said slide 11 was a reminder of the third-party administrators - Aetna for medical, OptumRx for pharmacy and Delta Dental of Alaska for dental plans.

CHAIR WILLIAMS asked what happens when a firefighter or teacher decided that they needed to retire at 60 and they were five years away from being Medicare eligible; MS. RICCI said she did not believe that they would be eligible for past work coverage under the health plan if they did not also have 25 years of services as a police officer or firefighter, or 30 years as a teacher; CHAIR WILLIAMS asked if a firefighter started at the age of 40 and worked for 20 years and retired, would they have access to anything at that time; MS. RICCI said she believed they would have access to their HRA after 10 years and depending on why they no longer were a firefighter, there may be other options for them.

X. PERIODIC SELF-ASSESSMENT

CHAIR WILLIAMS explained that self-assessment within the meaning of the committee's charter could be achieved by discussion, at least twice a year, of the following questions:

"Are discussion at the committee level meaningful and, if not, what can be done about it?"

"Is the committee giving appropriate time to key issues?"

"What key issues are being missed?"

"Does the work of the DC Committee appropriately meet the needs of the Board by reducing necessary Board meeting time spent on the matters that come before the DC Committee?"

MR. JOHNSON noted that in the Audit Committee meeting the self-assessment was considered and the understanding was everything would be inferred to be yes and satisfactory unless someone had comments to give.

CHAIR WILLIAMS commented that he thought the presentation by T. Rowe Price was originally slotted for between 45 minutes to an hour and felt they had a rich discussion that was not going to happen at the Board level.

XI. REVIEW COMMITTEE CHARTER

CHAIR WILLIAMS said the committee charter was in the packet for reference.

XII. FUTURE MEETINGS

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

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

XIV. PUBLIC/MEMBER COMMENTS – None

XV. ADJOURNMENT

<u>MR. KROHN moved to adjourn the meeting.</u> <u>MR. JOHNSON seconded the motion.</u> The motion passed without objection.

The meeting was adjourned at 12:29 p.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.