

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

**Videoconference**

**MINUTES OF**  
**March 16, 2022**

**Wednesday, March 16, 2022**

**ATTENDANCE**

**Committee Present:** Bob Williams, *Chair*  
Dennis Moen  
Allen Hippler  
Donald Krohn  
Sandra Ryan

**Committee Members Absent:**  
Michael Williams

**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  
Michelle Prebula, Public Equity & DC Investment Officer  
Sean Howard, State Investment Officer  
Scott Jones, Head of Investment Operations, Performance & Analytics  
Ryan Kauzlarich, Assistant Comptroller  
Alysia Jones, Board Liaison  
Grant Ficek, Business Analyst

**Department of Administration Staff Present:**  
Ajay Desai, Director, Division of Retirement and Benefits  
Jim Puckett, Chief Pension Officer, 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  
Emily Ricci, Health Care Policy Administrator, Division of Retirement and Benefits

**ARMB Legal Counsel Present:**

Benjamin Hofmeister, Assistant Attorney General, Department of Law

**Consultants, Invited Participants, and Others Present:**

Liz Davidsen, Empower

Marybeth Daubenspeck, Empower

Steve Center, Callan

Paul Erlendson, Callan

Andrew Jacobs van Merlen, T. Rowe Price

Charles Shriver, T. Rowe Price

Anne Fader, T. Rowe Price

Sean Connor, T. Rowe Price

**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. KROHN, MR. MOEN, MS. RYAN, 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. KROHN moved to approve the agenda. MS. RYAN seconded the motion. The agenda was approved without objection.

**B. APPROVAL OF MINUTES: December 1, 2021**

MR. KROHN moved to approve the minutes of the December 1, 2021, meeting. MR. HIPPLER seconded the motion. The minutes were approved without objection.

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

**VI. T. ROWE PRICE IMPLEMENTATION UPDATES**

MS. PREBULA said staff were working with T. Rowe Price to implement some significant structural changes in the target date and balance fund building blocks and invited MR. DYER, MR. JACOBS VAN MERLEN, and MS. FADER from T. Rowe Price to discuss the implementation.

MR. JACOBS VAN MERLEN presented his report using slides to show the structural changes they were performing in the target date portfolios and balance portfolios. He said they were moving from a structure that invests in four proprietary Alaska building blocks and the future profile will invest in ten commingled vehicles. He said they would be adding the U.S. structured research equity, the international core equity strategy, and the high yield bond strategy. He noted that the high level, U.S.

equities, core bonds, treasuries, TIPS would mostly be done in kind and on the international equity side, most of the emerging market exposure would be going out to market. He explained that they would be liquidating the floating rate note exposure with the current bond trust into cash and using that as well as the money market to purchase the additional TIPS exposure and high yield bond exposure. He said they were also going to tranche the core fixed income transition into three phases over the next three quarters. He also noted that the benchmark would mirror the class exposure of each strategy.

MS. FADER stated that they were updating and streamlining the existing contracts and legal documentation to more of a participation agreement format. She noted that it required them to engage third parties that were involved in the State of Alaska portfolios, such as State Street and Empower. She said they were also taking a deeper dive internally at reporting deliverables and that some may be adjusted to reflect the more streamlined state of the portfolio. She added that they were looking into restructuring the fees with an estimated time frame of mid-2022.

CHAIR WILLIAMS asked if they had any concerns about the transition; MR. JACOBS VAN MERLEN said the transaction of this size was not routine, but they do perform them on a frequent basis within the target date space and have processes in place to handle a transition of this magnitude.

MS. RYAN asked about the communication with the members as most of the members were moving to the DC plan due to hiring date; MS. PREBULA said that they were working with Empower regarding participant communication and that they would post something about the process and timing.

## **VII. SELF-DIRECTED BROKERAGE UPDATE**

MR. PUCKETT explained the history of the Self-Directed Brokerage plan and then invited MR. HOFMEISTER to speak.

MR. HOFMEISTER discussed the diminishment clause from Article XII, Section 7 of the Alaska Constitution, saying that the membership in a retirement system constitutes a contractual relationship that could not be diminished or impaired. He said the concern was that someone with a self-directed brokerage account could invest their money in anything they wanted and if they placed all of their funds into one of the riskier funds and lost all their money, they might have a diminishment claim. He said that there were immunity statues for the ARM Board, but they were trying to figure out ways to limit the liability with regulations and parameters. He noted the participation agreement required acknowledgement that the participants are knowledgeable investors and understand the investment options. He said it also notes that none of the investment options through Empower Brokerage have been viewed for suitability by the employer, the plan sponsor, the plan trustees, any other plan fiduciaries, or Empower. He said that he did not think that they could maintain fiduciary responsibilities by opening up a window that has an infinite amount of funds that cannot be vetted on a regular basis.

MR. HOFMEISTER noted that currently there was a very limited menu of options that were easy for the ARM Board and staff to vet, and that you can't really do that with a larger menu of options. He then mentioned the recent decision regarding the Hughes case. He said the Supreme Court's decision

was 8-0, which indicated a resounding conclusion that the responsibilities of the fiduciary go far beyond just providing options. He encouraged the board to consider this decision in terms of any future discussions about a self-directed brokerage window.

MS. RYAN asked how many members were seeking this and what the communication to members would be if the action item was approved as written. MR. PUCKETT said he had received six emails in the last 18 months. CHAIR WILLIAMS commented that there was a lot of enthusiasm from the membership and estimated he had 30 different conversations with members on this topic. He also noted in regard to communication, the marketing got well ahead of what was happening.

MR. HIPPLER asked if the fiduciary responsibilities fully extended to the supplemental plans, was there any opportunity for a lower standard for the optional plans. MR. HOFMEISTER responded, saying he did not think there was a way to give that investor choice to participants without having to view that through the lens of the Hughes case.

CHAIR WILLIAMS stated that the recommendation of the Defined Contribution Committee was to recommend the Alaska Retirement Management Board direct staff not to move forward with implementing a brokerage platform for members of the Alaska Supplemental Annuity Plan, Defined Contribution Retirement Plans, and the Deferred Compensation Plan.

MR. HIPPLER moved the recommendation. MR. KROHN seconded the motion.

A roll call vote was taken, and the motion passed unanimously.

## **VIII. MEMBER SERVICES AND FEES**

MR. WORLEY said that they were continuing to look into the fees for the deferred compensation plan as to how they could make them similar to other plans of PERS and TRS, defined contribution retirement plans and the supplemental benefit system plan to lower the fees to be more in line with the other plans. He said they would give a fuller update in June as they were continuing to analyze if it was a possibility.

## **IX. DIVISION OF RETIREMENT AND BENEFITS UPDATE**

### **A. Chief Pension Officer Report**

MR. PUCKETT provided a legislative update.. He explained House Bill 55 as the opportunity for Firefighters and Peace Officers to choose to go into a defined benefit plan if they were in a defined contribution plan. He said that the bill was currently in Senate Labor and Commerce, and then would move to Senate Finance. He noted that there were no meetings scheduled for HB 55.

MR. PUCKETT said the second bill was House Bill 220 which would affect every defined contribution member and would give them the choice to go to a defined benefit plan. He said the bill was currently in House Finance but needed to be tweaked before moving the to the House floor.

MS. RYAN asked if MR. PUCKETT would give a synopsis of what the issues were that needed to be tweaked; MR. PUCKETT stated that the fixes were in the language and one of the items may be in

violation of an IRS regulation. MS. RYAN then asked if the defined benefit plan included health insurance, as the current defined benefit plan does. MR. PUCKETT responded, saying that they would have the option to buy into the defined benefit, but would have the same health plan that they were in now.

MR. PUCKETT noted that they currently had a recordkeeping contract with Empower that was scheduled to expire in July 2023. He said they were not working on an RFP due to a number of large endeavors the Division was facing. He said one of the issues was the Metcalf case and the large number of people affected by it.

MR. DESAI said the other issue affecting the RFP process was the modernization project they had been working on for the last four years, noting that it would be going live in November or December of 2023. He said they had a significant amount of work left to do before going live with testing to start by March of 2023. He recommended that they wait to see how successfully they could implement the new system which would eliminate the workload from the staff and then they could focus on the RFP. He noted that they were seeking Commissioner approval to extend the current contract for one year.

CHAIR WILLIAMS expressed his concern regarding the delay in the RFP process. He asked if they anticipated moving forward with the RFP after the one-year delay and whether there was consideration of getting advice on helping with the RFP process. MR. DESAI explained the RFP process and said that if they find a company that would be helpful with the process, they would entertain that as well.

## **B. Empower Update**

CHAIR WILLIAMS invited MS. DAUBENSPECK from Empower to present.

MS. DAUBENSPECK began her presentation by discussing fee transparency. She explained that all participants and prospective participants receive a document called Plan Highlights which outlines the fees for participants. She noted that each plan has its own fee schedule. She displayed examples of what the webpages looked like. She said there were two versions of the fee structure, one in a comprehensive version, the other is a comparison worksheet. She explained they could add an additional link under the plan highlights for the fee document housed in pre-login. She also noted they had three different options for participants to obtain additional information under the title of “are you a new employee”, “are you retirement ready”, and “are you approaching retirement”. She showed examples of various links for additional information, as well as educational tools. MS. DAUBENSPECK then proceeded to show an interactive demonstration of the website.

CHAIR WILLIAMS asked about the fee transfers and adjustments to the statements. MS. DAUBENSPECK said that she was working with MR. PUCKETT and his staff on the verbiage for those statements and suggested directing them to the website as well to get the fee documents she shared within the presentation.

MS. RYAN asked if there was going to be something that directed the TRS participants to look further into it because they might expect Social Security contributions; MS. DAUBENSPECK said their team

of advisors are trained on the Social Security aspect of TRS and do bring that up in their conversations with members. MS. DAVIDSEN added that their team partnered Social Security and DRB last year to offer presentations and that they had great attendance in those meetings.

**C. FY 2023 Health Reimbursement Arrangement (HRA) Amount**

MR. WORLEY explained that the HRA was only for the defined contribution members and was part of the employer contribution rate, 22 percent for PERS and 12.56 percent for TRS. He noted the amount goes into the PERS or TRS health reimbursement arrangement trust fund the members and they track contributions by member in the system. He said the amount for FY 23 would be \$2,237.04, the maximum amount for a member, based on their working schedule.

**X. TREASURY DC UPDATE**

MR. HANNA briefly commented on the Russian security exposure, noting that he would go into more detail during his CIO report the next day.

MR. HANNA noted that the DC plans were in broadly diversified international investments, he said there was one international index fund that had some exposure, less than one percent overall in the actualized index fund, and three active managers that have very low exposure. He noted that for Brandes and Baillie Gifford, Russia was roughly one percent weight in those indices. He said that all the T. Rowe target date and balance funds had exposure. He said JP Morgan SmartRetirement had some de minimis emerging market debt exposure. He noted that almost all large indexes had dropped Russian securities.

MS. PREBULA explained that they will be adding Brandes to the watch list as they had failed the watch list criteria for their six-year mark. She said their gross of fee return over a six-year period was less than their benchmark and their net of fee six-year performance was less than the median performance of their peers. She also reported on the change for JP Morgan's SmartSpending to SmartRetirement and a modest decrease in fees relating to one of T. Rowe Prices Stable Value wrap providers.

**XI. REVIEW COMMITTEE CHARTER**

CHAIR WILLIAMS said the committee charter was in the packet and the Trustees could review it and make sure discussions and agenda items were there.

**XII. FUTURE MEETINGS**

**A. Calendar Review**

MS. JONES said the calendar for 2022 and draft calendar for 2023 were in the packet.

**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**

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

The meeting was adjourned at 11:51 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.