

**ALASKA RETIREMENT MANAGEMENT BOARD
DEFINED CONTRIBUTION PLAN COMMITTEE MEETING
HYBRID/TEAMS**

**November 30, 2022
10:00 a.m.**

**Originating at:
Atwood Conference Center
550 West 7th Avenue, 1st Floor
Anchorage, Alaska 99501**

Committee Members Present:

Bob Williams, Chair
Allen Hippler
Dennis Moen

Donald Krohn
Michael Williams

Committee Members Absent:

Sandra Ryan

Other Trustees Present:

Commissioner Adam Crum

Department of Revenue Staff Present:

Zach Hanna, Chief Investment Officer
Scott Jones, Head of Investment Operations,
Performance & Analytics
Hunter Romberg, Senior Compliance Officer
Chris Madsen, Administrative Operations Manager
Grant Ficek, Business Analyst

Pamela Leary, Director, Treasury Division
Ryan Kauzlarich, Assistant Comptroller
Stephanie Pham, State Investment Officer
Cahal Morehouse, State Investment Officer
Leighan Gonzales, Executive Assistant
Alysia Jones, Board Liaison

Department of Law Staff Present:

Ben Hofmeister, Assistant Attorney General

Department of Administration, Division of Retirement & Benefits Present:

Ajay Desai, Director
Jim Puckett, Chief Pension Officer
Roberto Aceveda, Counseling & Education Manager

Kevin Worley, Chief Financial Officer
Traci Walther, Accountant 5

Empower:

Marybeth Daubenspeck, Vice President

Liz Davidsen, State Director

Buck:

David Kershner, Principal, Consulting Actuary

Callan:

Greg Ungerman, DC Practice Leader

Paul Erlendson, Senior Vice President

Steve Center, Senior Vice President

Investment Advisory Council Present:

Ruth Ryerson

Dr. William Jennings

Public Present:

Randall Burns, RPEA President

PROCEEDINGS

CALL TO ORDER

CHAIR BOB WILLIAMS called the Defined Contribution Plan Committee meeting to order and asked for a roll call. He officially welcomed Commissioner Crum to the Defined Contribution Plan Committee meeting.

MS. JONES called the roll.

PUBLIC METING NOTICE

CHAIR BOB WILLIAMS asked to confirm that the public meeting notice was met.

MS. JONES replied, yes, it had.

APPROVE THE AGENDA

CHAIR BOB WILLIAMS asked for a motion to approve the agenda.

MOTION: A motion to approve the agenda was made by TRUSTEE MIKE WILLIAMS; seconded by TRUSTEE KROHN.

There being no objection, the MOTION was APPROVED.

APPROVAL OF MINUTES

CHAIR BOB WILLIAMS moved to the minutes from September 14, 2022 and asked for a motion.

MOTION: A motion to accept the minutes of September 14, 2022, was made by TRUSTEE KROHN; seconded by TRUSTEE MOEN.

There being no objection, the MOTION was APPROVED.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

CHAIR BOB WILLIAMS moved to the portion of the meeting for public member participation and asked if there was anyone in the room or online that would like to speak. Seeing and hearing none, he moved forward.

DC PLAN'S INVESTMENT STRUCTURE BEST PRACTICES

CHAIR BOB WILLIAMS asked CIO Hanna to do the introductions for the DC Plan's investment structure best practices presentation.

CIO HANNA stated that Callan is in the process of doing the defined contribution investment structure analysis for the ARM Board which will be presented in March. This is a prelude to that conversation. He introduced Greg Ungerman, who leads Callan's defined contribution group, to discuss best practices for DC and some of the results from Callan's annual DC survey, conducted earlier in the year.

MR. UNGERMAN said his presentation as an educational one based on industry best practices for investment structures. He stated that the key function as a DC plan fiduciary was selecting investment categories and options to offer on behalf of the participants. He continued that the decisions are made on behalf of the participants, but it was ultimately up to participants to take that plan and implement it on their own behalf. There is no optimal investment menu; the key is what is taken from industry best practices.

MR. HANNA asked about the prevalence of white-labeling active managers. MR. UNGERMAN responded that 20 to 35 percent of mega plans offer a white-label option.

MR. UNGERMAN continued through his presentation and touched on brokerage windows.

MR. HOFMEISTER stated that the creation of more funds and more menu options was something that the Northwestern case, the United States Supreme Court case, would implicate because the ARM Board has a fiduciary duty to monitor those funds so that they do not negatively impact beneficiaries. The second part is about allowing beneficiaries to enter into the Tier III-type funds or options. There was another state law component which was the diminishment clause issues. One of the concerns was about the self-directive brokerages. He explained that the way the Empower documents were structured; they retain no liability. They are not under the same fiduciary responsibilities as the ARM Board.

CHAIR BOB WILLIAMS shared excitement about the white paper and thanked Mr. Ungerman for his presentation. He moved on to the Division of Retirement and Benefits update and recognized Chief Pension Officer Puckett.

DIVISION OF RETIREMENT & BENEFITS UPDATE

CHIEF PENSION OFFICER REPORT

MR. PUCKETT stated that this was the time of the year to examine one of the main missions at DRB, the end of peak season for retirement application processing. He continued that for FY22, the Division processed 1,500 retirement applications. For FY23, as of October 31, 777 retirement applications had been processed. He stated that the survivors' benefit for those beneficiaries of members who passed away was entering a peak season and that was the most sensitive benefit they handle. He reported in FY21, a record of 2,091 survivors' benefits were processed. He added that 2,039 survivor benefits were processed for FY22 and as of October 31, 513 survivor benefits had been processed for the current fiscal year.

RECORDKEEPING CONTRACT EXTENSION

CHAIR BOB WILLIAMS recognized Director Desai.

MR. DESAI reminded the Committee that he had provided updates regarding the recordkeeping contract extension at the Board's May and June meetings. He explained Empower had reached out to the Division after learning of the intention to delay the RFP one-year and provided a proposal with a rate reduction in fees if a contract extension beyond one year was considered. He explained the Division's decision to extend Empower's contract by two years, citing multiple challenges and timing factors, including a multiple change request under the BEARS (**BE**nefits **ANd** **RE**tirement **S**ystem) project that shifted the rollout date from December 2023 to the end of March 2024; impact of the Metcalfe case on workload, 20+ vacancies within the Division, and initiation of an audit fee process. He added that they will continue working with Empower to make sure their services do not decline.

CHAIR BOB WILLIAMS reiterated his disappointment in the two-year extension and asked for clarification on a letter of concern that was received from NEA Alaska about some of their experiences. He noted that Empower responded to those, and their response had been shared with the trustees. He stated that he would not describe the concerns raised as minor; there were some significant things in there. He asked about the intention, when the two-year extension completed, of having an RFP and not extending the contract further.

MR. DESAI replied that was accurate and indicated planning for that RFP had already started. He explained that Procurement will not allow extending the contract beyond this extension. He stated that the board recommended considering having a consultant help the Division through the process, and he agreed, stating they would utilize that help and expertise to choose the right vendor for the next contract.

EDUCATIONAL OUTREACH

MR. ACEVEDA reported on educational outreach for 2022. He explained outreach is done in addition to the counseling team's regular workload. Each month, a counselor runs 30 to 60 appointments, and fields approximately 200 to 300 calls, and 300 to 400 e-mails. He noted that the team also developed pre-recorded web-based trainings for employers and members, which are available on demand via a YouTube channel on the Alaska Division of Retirement and Benefits website. He stated that there were 36 scheduled live events that engaged with a total of 2,024 members throughout '22. The team also sent over 1,800 letters to members who were eligible to convert from DC to DB, per the Metcalfe case. Of those 1,800, there were 530 first-time meetings with members. He explained the process in more detail and concluded his report.

CHAIR BOB WILLIAMS asked MR. ACEVEDA to provide a written version of his report going forward for inclusion in the packet to be reviewed beforehand. He moved to the Empower update with State Director Davidsen and Vice President Daubenspeck.

EMPOWER UPDATE

MS. DAUBENSPECK clarified that they had three items on the agenda: the fee transparency; the NEA concerns; and managed accounts. She added that they also provided a separate slide deck with information that piggybacked off of Mr. Aceveda's discussion of engagement. She began with the update on fee transparency and stated that all but one update was put in place. The outstanding item related to additional clarity on the fee schedule for services. She explained that the entire structure was rebuilt on the new website on how to get into managed accounts and online advice.

CHAIR BOB WILLIAMS stated his concerns about the need to be able to see the price at the very beginning of making selections.

MS. DAUBENSPECK replied that all the changes were made based on this committee's feedback. The entire process was reworked so that upfront it says that this was a professionally managed account, and it shows all of the fees. She asked for feedback on the NEA concerns.

CHAIR BOB WILLIAMS replied that information was e-mailed to the trustees, so they were aware of it. He stated that when that letter was received, a lot of trustees had concerns and addressing those concerns was important.

MS. DAUBENSPECK walked through the six concerns, explaining each issue, and clarifying how the technology worked. The first concern was caused by an incorrect marital status and resulted in a system override. The second item where an individual logged in to the Empower website and identified that the entire platform had message changes, dead links, and an unnamed, extra retirement account that would change their retirement projection. She explained that there was a big change in the platform and that a big strategy was put together to make sure participants were aware that this could happen. She explained that impacted participants were e-mailed and asked to log in to the website to review their information. She went into more detail and added that webinars were held specifically for the State of Alaska to explain to participants what the new website was, and it gave them an opportunity to ask questions and go through it.

CHAIR BOB WILLIAMS commented that there seemed to be the need for clearer communication.

MS. DAUBENSPECK stated that the next concern came from a meeting with an Empower representative. She noted that associate was no longer with Empower. She added that everyone was given an extensive training program on appropriate communication. She explained that there were also very specific trainings for the State of Alaska associates in July 2022. She continued that this feedback was very concerning, and that they did refresher training with staff to make sure there was a good understanding of how to use the tools before going out to the participants again. She explained the different solutions to some of the complications. She then went through some information on who was in managed accounts, what the participation rate is, and the returns.

DR. JENNINGS asked for more data on the 4 percent value-added. He added that it did not seem plausible.

CHAIR BOB WILLIAMS asked Dr. Jennings to put together his questions and send them to Ms. Jones, to relay to Ms. Daubenspeck. He moved on to the PERS and Social Security discussion with CFO Worley.

PERS & SOCIAL SECURITY DISCUSSION

MR. WORLEY stated that there is a listing of the PERS employers and a checkmark of those employers in Social Security. He continued that it was not complete but gave an idea of who within PERS was also participating in Social Security. He clarified that when a school district

was listed, they have both TRS and PERS, because the administrative staff are considered PERS. He then moved to a flowchart showing an example payroll for fiscal year '23 which looked at how a defined benefit employee compared to a defined contribution member. He explained that changes to the statutory language allowed the State of Alaska, as an employer, to pay the full actuarial rate adopted by the ARM Board, instead of being capped at 22 for PERS. The adopted rate for '23 was 24.79 percent. He then walked through flowcharts for a non-State employer and a defined contribution member and showed how the payroll was split out.

TRUSTEE HIPPLER thanked Mr. Worley for going over this. He stated that this was important because looking at Monte Carlo simulations sometimes show how effective the defined contribution plan is at preparing people for retirement, and then we wonder why ideal results are not gotten.

TRUSTEE MIKE WILLIAMS disagreed with Trustee Hippler's characterization. He clarified that this was employer money, not employee money, going towards the unfunded liability. That was set by statute. That was a requirement of setting up the whole defined contribution plan. He added that it was never meant to be money eligible for DC employee contributions. It was a funding mechanism to pay down the pension liability.

MR. DESAI agreed. The only reason the excess right now goes to the DB fund is because of the unfunded liability on the DB side and cost-share rules in place. He stated that this calculation will significantly change once there is 100 percent funding and no unfunded liability.

TREASURY DC UPDATE

CHAIR BOB WILLIAMS introduced CIO Hanna with the Treasury DC Update.

MR. HANNA stated that the big project underway was Callan's DC structure investment analysis, which will be on the March agenda. He reintroduced Stephanie Pham to the committee. He continued that in addition to her duties as a senior equity portfolio manager, she assumed responsibility for the DC plans following Michelle Prebula's retirement. There will be an opportunity to meet with her in person in Juneau in March. He asked her to provide an update on the target balance fund restructuring.

MS. PHAM stated that the majority of the transition of the target balance fund was completed in September. It was on schedule with the continued transition of the Alaska Bond Trust which would be completed over several tranches. She noted that everything had been moving along very smoothly.

PERIODIC SELF-ASSESSMENT

CHAIR BOB WILLIAMS stated that the periodic self-assessment was in the packet to assess how the committee was doing. He stated appreciation for the robust and thoughtful conversation today.

REVIEW COMMITTEE CHARTER

CHAIR BOB WILLIAMS said that the committee charter was in the packet, and it explains who they are, why they do what they do, and by what authority. He asked if there were any questions or comments. There being none, he moved to future meetings.

FUTURE MEETINGS

CHAIR BOB WILLIAMS directed the committee to the calendar and future agenda items. He stated that there would be an update on TRS members regarding Social Security data and the final report for the investment structure analysis at the next meeting in March. He asked for any requests or follow-ups. There being none, he asked for any other matters to come before the committee, and then for any public member comments. There being none, he asked for a motion for adjournment.

MOTION: A motion was made to adjourn the meeting by TRUSTEE MIKE WILLIAMS; seconded by TRUSTEE KROHN.

There being no objection, the MOTION was APPROVED.

(Defined Contribution Plan Committee meeting adjourned at 12:12 p.m.)