

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

**March 15, 2023
10:00 a.m.**

**Originating at:
State Office Building
Department of Administration
Large Conference Room, 10th Floor
333 Willoughby Avenue
Juneau, Alaska 99801**

Trustees Present:

Bob Williams, Chair	Allen Hippler
Sandra Ryan	Donald Krohn
Dennis Moen	Lorne Bretz

Department of Revenue Staff Present:

Zachary Hanna, Chief Investment Officer	Pamela Leary, Director, Treasury Division
Ryan Kauzlarich, Assistant Comptroller	Hunter Romberg, Senior Compliance Officer
Stephanie Pham, State Investment Officer	Mark Moon, State Investment Officer
Benjamin Garrett, State Investment Officer	Sam Hobbs, Accountant V
Tina Martin, Accountant IV	Grant Ficek, Business Analyst
Alysia Jones, Board Liaison	

Department of Administration, Division of Retirement & Benefits Present:

Ajay Desai, Director, DRB	Kevin Worley, Chief Financial Officer
Mindy Voigt, Assistant Chief Pension Officer	
Larry Davis, Appeals & Risk Mitigation Manager	
Brandon Roomsburg, Retirement & Benefits Specialist	
Roberto Aceveda, Counseling & Education Manager	
Nimeri Denis, Audit & Review Analyst	

Department of Law Staff Present:

Ben Hofmeister, Assistant Attorney General

Investment Advisory Council Present:

Dr. William W. Jennings	Ruth Traylor
-------------------------	--------------

Guests/Presenters:

Marybeth Daubenspeck, Vice President, Government Markets, Empower	
Liz Davidsen, State Director, Empower	Vicki Alva, Empower
Ashleigh Kester, Empower	Robyn Loftin, Empower

PROCEEDINGS

CALL TO ORDER

CHAIR BOB WILLIAMS called the Defined Contribution Plan Committee meeting to order and asked for a roll call.

MS. JONES called the roll and announced that there was a quorum.

PUBLIC METING NOTICE

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

MS. JONES replied, yes, it had.

APPROVAL OF AGENDA

CHAIR BOB WILLIAMS asked for any changes to the agenda.

MR. WORLEY noted that he would be giving the update to item 6A1, as opposed to Mindy Voigt.

CHAIR BOB WILLIAMS asked for any other corrections or changes to the agenda. There being none, the agenda was approved.

APPROVAL OF MINUTES

CHAIR BOB WILLIAMS moved to the minutes from November 30, 2022, and asked for a motion.

MOTION: A motion to accept the minutes of November 30, 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 and closed Public/Member Participation, Communications, and Appearances.

DIVISION OF RETIREMENT & BENEFITS UPDATE

CHIEF PENSION OFFICER REPORT

MR. WORLEY introduced Mindy Voigt to give the chief pension officer's report. Ms. Voigt is filling in for Jim Puckett, who retired in January.

MS. VOIGT stated that she had been with the Division of Retirement & Benefits for 23.5 years. For the last 3.5 years, she had been the retirement operations manager. She gave a brief overview of the 33rd legislative bills that were impacting or could potential impact the defined contribution retirement plans for PERS and TRS. The first bill was House Bill 22, the police officer/firefighter retirement pension plan. The Senate version of this bill is Senate Bill 35. There was one committee meeting regarding this bill, and then it was moved to subcommittee, along with Senate Bill 88. Next was Senate Bill 11, which would create a new defined benefit

tier for the PERS and TRS for all occupations. Senate Bill 88 would create a new defined benefits tier for PERS and TRS members in all occupations. She added that this bill had a committee meeting, another one scheduled this afternoon, and another one scheduled for Friday.

RECORDKEEPING FEE REDUCTION UPDATE

MR. WORLEY moved to agenda item VI.A.1, the recordkeeping fee reduction update. He stated that there would be a formal written report at the June meeting. The fee reduction starts on July 1 with the contract extension with Empower.

METCALFE CONVERSION UPDATE

CHAIR BOB WILLIAMS stated that next on the agenda was the Metcalfe Conversion Update with Appeals and Risk Mitigation Manager Larry Davis.

MR. DAVIS stated that he has been with the Division for over 25 years and has been the appeals and risk mitigation manager for seven of those years. He gave an update implementing the decision in the Metcalfe case. He continued that the mandate allows affected members to convert to the defined benefit plan, if that is their choice. There were two classes of affected members: first were the refunded former members who had not returned to employment. Any who later on return to PERS or TRS employment are given an option at the time of hire to elect either the DCR plan or the DB plan. There are members in a special conversion period who reemployed on or after July 1st, 2010, and were still employed or terminated with an active defined contribution plan balance. Those are the members being reached out to for a special conversion period. There will be a rollout on March 27th by sending letters to approximately 2,000 affected members to let them know of this upcoming special conversion period which will take place in May. This would be fully documented, and everything would be on file so that if any questions come up about the process, policies, and strategies being employed, they can be easily produced for counsel or the Court. The goal is to complete the online survey portion where members indicate they are converting by the middle of June, and then to proceed with the counseling element leading to the actual conversion calculations. The hope is to complete this project by the end of this year. He added that the new BEARS system will be fully integrated on that. Part of the planning and project is making sure the new BEARS system can accommodate the unique situations.

CHAIR BOB WILLIAMS asked for a video link for the June meeting.

MR. DAVIS replied that he would make that happen.

CHAIR BOB WILLIAMS moved to the Empower update.

EMPOWER UPDATE

MR. WORLEY began by introducing Marybeth Daubenspeck, vice president of government markets for Empower, and Liz Davidsen, State director for Empower. There are also two colleagues on video and one colleague sitting in the audience. He stated that the first topic would address the recent NEA Alaska letter that was received through the board. There was a formal response from Empower. He continued that the response letter was handed out to the trustees and members interested in seeing that response.

MS. DAUBENSPECK thanked all for the opportunity and stated that two of their associates from the Empower advisory group were online. Going forward, she continued, that Empower

would have representation at all of the DC Committee meetings. She added that managed accounts advisory services are a big part of this program. She introduced Ashleigh Kester, one of the senior managers in the Empower advisory group, who has been with the company for seven years, and in the industry for 15. She also introduced Robyn Loftin, assistant vice president of Empower advisory group, who has been with the organization for 20 years. She stated that Morningstar agreed that if the committee or board would like them to join a meeting, they would be happy to join in. She also introduced Vicki Alva, in the room, who is the retirement plan advisor. She meets directly with participants to do retirement readiness reviews, and supports them in any ways they need for their defined contribution plan. She moved to the letter from the president of the NEA and talked about the projected monthly income in retirement. The concern was around the Social Security toggle ability and that the plan was a Social Security Replacement. For the State of Alaska plans, the default was to exclude Social Security from the projection for every one of the plans that they recordkeep. A screenshot was provided for an individual who participated both in a State of Alaska plan, a TRS plan, and also participated in the Anchorage School District plan to show the situation. The Anchorage School District made the decision to turn on Social Security projection within the monthly income estimate; the State of Alaska did not.

MR. WORLEY commented that he reached out to the Anchorage School District (ASD) and talked to the folks that administer the 403(b). The PERS employees are covered by Social Security and that is why ASD opted to have this feature turned on. The TRS employees are not covered by Social Security.

CHAIR BOB WILLIAMS stated concern that this is not a small thing. Anchorage is the largest school district in the state of Alaska with thousands of teachers. He continued that Empower needed to find a way to toggle off the teachers in TRS and toggle on all the teachers in PERS. This is not a minor issue if it puts Social Security in there that they do not have, and inflates the amount of money they think they will have. He stated that this seemed like something Empower needed to correct.

MS. DAUBENSPECK stated they could take that back and needed to get permission from the Anchorage School District to say that this methodology on the website would be turned off. A collaboration was needed to come up with a solution to make that work.

TRUSTEE RYAN stated that she did not understand the problem. Anchorage has about 3,300 TRS employees, none of which contribute to Social Security.

MS. DAUBENSPECK stated that there is an opportunity to leverage some type of messaging; educating them on that; and then working with Anchorage School District to come to some alignment with turning that off on their site.

MS. DAVIDSEN stated that she had been in the Anchorage office for a few years and the Windfall Elimination Provision was not out there for everyone. She talked about the education on this.

CHAIR BOB WILLIAMS stated that the solution would be turning off the default for all teachers in the Anchorage School District, and he understood that Anchorage would have to agree to it. He continued that the board would not have received the letter if the things could have happened at a lower level.

MR. WORLEY had asked the school district how they notified new teachers that their position was not covered by Social Security. He stated that there is a form they were required to sign and submit to the state Social Security Administrator, SSA 1945, as part of their onboarding.

MS. DAUBENSPECK stated that they would work on a solution. She moved to the last quarter and a report that provided performance. Dr. Jennings stated that there were concerns with the numbers. This went back to the organization, and Dr. Jennings was correct. She explained it was a custom report that was not readily available, but that she pushed to have it for the committee's November 30th meeting. The report that came out was quality-checked, but when transcribed into a PowerPoint, it was labeled incorrectly. She apologized for the incorrect data. A new report was subsequently provided.

MS. DAUBENSPECK explained that the first updated report was the month-to-month returns using the secant method, but updated numbers with the managed account performance results. She said they wanted to be able to have a repeatable process and engaged Morningstar. They determined it made more sense for them to be doing it for an entire period – 1 year, 3 years, 5 years, and created a new report so it is an apples-to-apples comparison.

MS. LOFTIN explained secant is a mathematical equation and a common way to approach the rate-of-return calculation. That was what was programmed into the system. It was the mathematical rate of return methodology that applied to cash flows, ins and outs, the contributions.

DR. JENNINGS asked for more detail of that to be shared.

MS. LOFTIN replied that they would follow up and share a written methodology from the analyst team.

MR. HANNA clarified that the managed account performance included participant cash flows, including inflows, whereas the target date performance was just actual performance of those underlying funds. Over a long period of time, those cash flows, and how they compounded and the path you took to those returns matters more and more. MS. LOFTIN responded affirmatively.

CHAIR BOB WILLIAMS stated that having accurate data is super important to the board. There was a huge fiasco with Mercer because of some errors in the reporting that ended up having billions of dollars of impact on what was being done. We are making sure that it does not happen again. He hoped for a much stronger review of the final presentation, and noted that the board is not a beta tester.

MS. DAUBENSPECK apologized and stated that they knew the importance of the decisions made by the board. She continued that it was never our intention to bring bad data, and we are bringing in independent experts to make sure the methodology is correct.

TRUSTEE KROHN stated that he received a complaint from a member and did not know if it was isolated or not. They reached the age of 72 and needed to take the money out of their account. They went online and requested an amount be sent to them in a check, with a request to hold 10 percent for taxes. They got the check; but Empower only held 10 cents.

MS. DAUBENSPECK responded that this had been brought to her attention yesterday, and we are looking into it. She stated that whoever sent it over gave a lot of great detail and information that was appreciated. This is being looked into, and she stated that she will not comment until the research has been done.

MR. WORLEY commented that the complaints were not coming to the Division, which is a concern, because they are the administrators.

TRUSTEE KROHN stated that if it happened again, he would send them directly to the Division of Retirement and Benefits.

MS. LOFTIN moved to the portfolio construction sheet, which is consistent with what Callan pulled in. It just looked a little different in the order, and it is run on a quarterly basis. It comes into the retirement readiness report card that is available for every plan sponsor that ordered or had managed accounts on their plan since all portfolios were done at the individual participant level to be able to illustrate how the investment in the plan are used in the portfolio.

CHAIR BOB WILLIAMS stated that all the extra details and all the extra information was welcomed, but some of the information surprised him.

MS. LOFTIN explained some of the rationale.

MS. DAUBENSPECK stated that the other question asked was regarding the number of people defaulted into managed accounts. There were two plans where managed accounts were the default versus the target date fund. MS. DAVIDSEN reviewed the default analysis data as of 9/30/2016 and as of 2/15/2023.

MS. DAVIDSEN then moved on to updates to the website. She stated that they were partnering to get as many fee disclosures out in the world as possible. As of March 2023, a fee-based service note had been added to the Investment Help, and the actual fee structure had been added to the second page. She noted that the Juneau School District was added to the 457 Plan. They partnered with DRB and Empower with the field teams to bring on Juneau School District.

TRUSTEE HIPPLER stated that one of the advantages of advised accounts who defaulted into My Total Retirement is that they had larger balances than people who did not. He continued that he would be interested in something like that. He added that he was okay with paying fees as long as the actual results were better. He asked about that assessment.

MS. DAUBENSPECK replied that she had to go back and look at the data, specifically to those individuals who defaulted into the managed accounts, and look at their savings versus others.

CHAIR BOB WILLIAMS asked for any other questions. He thanked them for their presentation and moved to the next item on the agenda, Health Reimbursement Arrangement, HRA, accounts, with Chief Finance Officer Kevin Worley.

FY2024 HEALTH REIMBURSEMENT ARRANGEMENT (HRA) AMOUNT

MR. WORLEY stated he was on page 75 of the PDF for staff report for the FY24 health reimbursement arrangement for the employer contribution amount part of the defined

contribution payments. He talked about what the HRA was: an employer contribution fund only applicable to PERS and TRS DCR employees. He moved to a breakdown by fiscal year of what the contribution amount was. He added that this was an annual notification, so the committee was aware of what was going to be contributed to a member's account next year.

CHAIR BOB WILLIAMS moved to the PERS/TRS/Social Security discussion with Chief Financial Officer Kevin Worley.

PERS/TRS/ SOCIAL SECURITY DISCUSSION

MR. WORLEY moved to page 79, the listing Chair Bob Williams had asked for by employer. Who was in PERS; who was in TRS; and if they were included in SBS, participating in the State's deferred comp; were PERS employees participating in Social Security; or were the PERS employees not in SBS or Social Security. He stated that they went back to listings the Division maintains and looked at Social Security agreements. He continued that there will be an addendum report for June.

CHAIR BOB WILLIAMS commented that the listing gave a much clearer landscape of it. He continued that it appeared that the numbers of PERS employees that do not have SBS or Social Security was a much smaller number than originally thought. He moved to the managed accounts.

MANAGED ACCOUNT DISCUSSION

CHAIR BOB WILLIAMS stated that Managed Accounts had been looked at, and we thought that there was still more to learn about Managed Accounts. He would like to get to the point where they were getting data on a regular basis and could figure out the benchmark. The Managed Account is one of the more expensive fees out there. He stated that there was an action memo recommendation, and he asked for a motion.

MOTION: The Defined Contribution Plan Committee recommends that the Alaska Retirement Management Board direct staff to engage Callan to conduct a review of the Managed Account Service. The motion was made by TRUSTEE MOEN; seconded by TRUSTEE KROHN.

CHAIR BOB WILLIAMS stated that Callan conducted a review in 2016, and we are looking at updating that and doing a new one. He asked CIO Hanna if this felt like an appropriate time or an appropriate action.

CIO HANNA replied that, in general, staff's recommendation is a periodic reevaluation, and he felt that enough time had passed for that to be a strong recommendation at this point. He stated that they had talked a lot about managed accounts and there was still a level of opacity with the managed account service that can, hopefully, be moved beyond. He strongly supported the recommendation and added that it should be an interesting project for everyone to work on with Callan.

CHAIR BOB WILLIAMS stated that his intent was to get regular reporting that can be trusted and accurate and be able to make comparisons... He asked for any further discussion. There being none, he asked for a roll-call vote.

After the roll-call vote, the MOTION was APPROVED. (Trustee Ryan, yes;

Trustee Hippler, yes; Trustee Krohn, yes; Trustee Moen, yes; Trustee Michael Williams, absent; Chair Bob Williams, yes.)

CHAIR BOB WILLIAMS stated that the motion action memo passed. He moved to the DC Plans' Investment Structure Analysis provided by Callan.

DC PLANS' INVESTMENT STRUCTURE ANALYSIS

CIO HANNA stated that Callan had put a lot of good work into this process, and he encouraged committee members to dig into some of the details and ask about the perspectives of the various items recommended. Staff had not brought forward written recommendations that were responsive to this analysis at this time. The intention is to do that at the next meeting.

MR. CENTER stated that Callan was retained to conduct an investment structure analysis for the various Alaska Retirement Management Board defined contribution plans. This was last done in 2016, around the same time of the review of the managed accounts. He continued that some of the recommendations heard today are the same recommendations made in 2016. That does not mean that they need to be acted on. He added that it was the State's opinion that anything offered through a self-directed brokerage window has to ultimately be reviewed and approved on an ongoing basis by the Alaska Retirement Management Board. He stated that Mr. Hofmeister was there to help explain, if needed. One of the things they were asked to do as part of the investment structure analysis was to recommend what sort of categories they thought would make sense to fill within a limited self-directed brokerage window. He introduced Patrick Wisdom, from their defined contribution team. He works directly with Greg Ungerman, who was at the meeting in November.

MR. WISDOM talked about some of the findings from the investment structure analysis. He began with an overview of what an investment structure evaluation was and what they were looking to accomplish. This analysis was to make sure that the asset classes and individual options offered to participants were appropriate and, most importantly, conducive to helping participants build well-diversified and efficient portfolios. The focus was on the overall asset class level looking at the building blocks to make sure that participants had enough not to cause confusion or inefficient portfolio actions. He gave an overview of what will be accomplished in this discussion and talked about the investment structures within the defined contribution plan. Within the context of the Alaska plans, the ESG fund, as well as the diversified real assets fund, which have important roles within portfolio construction, were included. He included a comparison of how the number of options and asset classes offered in the plans stacked up against other defined contribution plans. The data that followed came from the Callan Defined Contribution Index, which contains data on a large subset of the defined contribution base. He noted that it reported on more than 100 defined contribution plans that together had more than \$400 billion in assets. It was a pretty representative sample of other large, institutionally oriented defined contribution plans. One of the data points he touched on was the number of options offered to participants.

MR. CENTER stated that the plan had both stable value and money market, which was fairly uncommon.

MR. WISDOM stated that, in the section that followed, they proposed a couple of alternative investment structures where, based on some of the participant analysis done as part of the study, there were some worthwhile ideas to consider for the investment lineup. He then gave an

overview of what was within the first alternative structure. The first recommendation looked at the capital preservation bucket where there was the money market and the stable value option. He continued that the second change to consider was adding an active core-plus fixed-income option to supplement the current passive core bond option. The third focused on the passive U.S. equity space where the S&P 500 index and the Russell 3000 index had a degree of overlap.

MR. CENTER noted that the money market utilization had been fairly low by participants. Looking at the asset base for money market versus stable value, stable value had at least 10 times the asset base that money market funds had, if all the assets were aggregated together.

TRUSTEE HIPPLER stated that the proposed structures included the maintenance on the strategic completion fund, which was not very heavily utilized and wondered what purpose that served.

MR. CENTER replied that was called a diversified real assets fund and was there to offer participants an investment that was designed to hedge against inflation by offering a diversified basket of commodities, Treasury-inflation-protected securities, and some kind of real estate-linked security like a REIT.

MR. WISDOM stated the next idea was to consider adding an active core-plus fixed-income option.

MR. CENTER stated that one recommendation included a review and reevaluation of the JPMorgan SmartRetirement funds. He continued that JPMorgan announced they were closing the 2015 fund and will be liquidating that later this year. Those assets will have to be mapped for participants to some location. He then noted some of the potential headaches that could come along.

TRUSTEE HIPPLER asked, in the event of discontinuing an option through a brokerage window, why would we not be able to force divestment.

MR. CENTER replied that was a participant's assets and once it was in the brokerage window it was controlled by a third-party brokerage. They cannot be forced to sell.

TRUSTEE HIPPLER asked to stop using the verbiage "brokerage window," and simply call it an expanded suite for investors. He stated that would remove the concern of selecting a fund that might be discontinued or not having the control and force divestment.

MR. CENTER stated that they would be happy to work with staff as they consider the recommendations.

CHAIR BOB WILLIAMS stated appreciation for the presentation and moved on to the Treasury update.

TREASURY DC UPDATE

CIO HANNA introduced Stephanie Pham who had taken over the DC accounts from Michelle Prebula, who had retired. He noted that Stephanie has done a great job of getting up to speed and on top of the issues.

MS. PHAM stated that it was nice to see all in person. She continued that she had contact and an asset management relationship with Empower and T. Rowe, and she did all the funds in the DC and so forth. She gave a brief update on the bond trust. It will be at 75 percent completion this March, and we expect T. Rowe to complete the full transition in June.

CHAIR BOB WILLIAMS stated that he was clicking the different target date funds and noticed the links still show the previous fees and asked when the lower fees that had been negotiated would kick in.

MS. PHAM replied that she would double-check and get back to him on that.

CHAIR BOB WILLIAMS stated his appreciation.

CIO HANNA stated that he almost viewed this presentation as a to-be-continued and that would be his preferred path. He continued that he would prefer to hold his comment until the next meetings in terms of specific staff responses to the Callan recommendations. He added that, from a plan design perspective, given that a real brokerage window could not be done, his view was any plan options ought to be added into a broader lineup.

CHAIR BOB WILLIAMS asked for anything to be added to the calendar or agenda items, and any requests for follow-ups. He asked for any other matter to come before the committee. Hearing none, he entertained a motion to adjourn.

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

There being no objection, the MOTION was APPROVED.

(The Defined Contribution Plan Committee adjourned at 12:19 p.m.)