Why Did the Alaska Retirement Management Board recommend closing Managed Accounts (My Total Retirement)?

The Alaska Retirement Management Board (ARMB) is a fiduciary of the retirement system and responsible for providing a range of investment options for the following retirement accounts: the Public Employees' (PERS), Teachers' (TRS) Defined Contribution Retirement (DCR) Plan, the Supplemental Annuity Plan (SBS-AP) and the public employees' Deferred Compensation Plan. The ARMB monitors the performance of the range of investment options for the accounts and establishes the rules by which participants can direct their investments among those options.

The ARMB worked with their investment consultant to conduct a thorough analysis of Managed Accounts and ultimately recommended closing Managed Accounts due to the following findings:

1. **Lower Investment Performance**: Over a ten-year period, most of the Managed Accounts underperformed the Alaska Target Date Funds, which are the current default option and available to all participants. This underperformance was attributed to higher fees for Managed Accounts, low levels of participant engagement, and the combined effect of the asset allocation strategy used by Managed Accounts.

2. **Higher Fees**: Managed Accounts have higher fees when compared to other options. The analysis showed that the average fees for Managed Accounts were over five times higher than the Alaska Target Date Funds, the current default option for participants. These fees reduced the total return to participants using Managed Accounts.

3. **Low Participant Engagement**: One of the potential benefits of Managed Accounts is providing a custom investment program based on specific participant information. However, the majority of participants in the Managed Accounts did not provide additional personal financial information that could be used to customize their investment strategy.

4. **Conservative Asset Allocation**: The analysis revealed that Managed Accounts often resulted in a significant underweight to stocks compared to Target Date Funds and other similar benchmarks. This conservative asset allocation resulted in lower returns.

5. **Performance Issues with Funding Ratio Methodology**: The funding ratio methodology used by Managed Accounts could result in reduced exposure to stocks. This methodology could characterize participants as underfunded for retirement if they did not provide information about their other financial assets, leading to a more conservative asset allocation and lower returns over time.

6. **Performance Monitoring Challenges:** Nationally, the investment performance of Managed Accounts is rarely assessed, making it difficult to ensure the delivery of results to participants. The ARMB went to extraordinary lengths to evaluate the performance of Managed Accounts. The board does not anticipate being able to repeat the analysis in the future in order to continue to hold Managed Accounts to a high standard.

Due to these findings, the ARMB recommended that the Department of Administration discontinue Managed Accounts for all participants and set the default for future contributions to age-appropriate Target Date Funds. This recommendation aims to enhance investment performance and reduce the fees for participants.

More information explaining why this decision was made is set out in ARMB Resolutions 2023-18 and 2024-01. Those Resolutions, the analysis, and the ARMB's deliberations on this matter can be reviewed here: https://treasury.dor.alaska.gov/armb/managed-accounts.

What will change if I am currently enrolled in the My Total Retirement service?

All financial advisory services offered by Empower Advisory Group (EAG), powered by Morningstar, and the fiduciary responsibility of EAG to manage your account assets, including periodic rebalancing of your account, will be discontinued.

Going forward, new contributions for existing employees will be set to age-appropriate Target Data Funds. However, for both current employees and those retired or no longer with participating employers, existing investments will remain invested as they are now with no rebalancing unless you take action to change this as is summarized in the following sections. This means that your current assets will no longer automatically adjust to a lower risk profile over time in a similar fashion to how investments in Target Date Funds will. However, you can consider other rebalancing and investment options as is detailed below.

A significant benefit of closing Managed Accounts is that you will no longer be paying the additional Managed Account fee, which was calculated as a percentage of the total amount of money you had invested in Managed Accounts. This change will help reduce the overall costs for you, allowing more of your retirement savings to grow without extra fees.

What is a Target Date Fund?

Target date funds provide participants with professionally managed and diversified investment portfolios with risk profiles that adjust over time through target retirement dates. Target date funds are the default option set by ARMB for all members of the Alaska retirement systems. These industry-standard funds gradually shift from higher-risk capital appreciation investments (like stocks) toward lower-risk capital preservation investments (like bonds) as a participant moves toward and through retirement. The funds are designed to be appropriate for many participants, are regularly monitored and improved, and have relatively low fees.

Target Date Funds are one-fund solutions built around a specified retirement date. They are designed to incorporate the "best thinking" for the average participant before and through retirement. Target Date Funds are not personalized for individual circumstances, but they do offer a simplified and efficient investment strategy for individuals planning for retirement.

Should I do anything if I am enrolled in the "My Total Retirement" service?

No immediate action is required; however, you may want to consider the following:

1. **Log into Your Account:** Please log into the Empower website to review your current investment allocation.
2. **Review Your Investments:** Navigate to the **Investing** tab and select the **Allocation** tab. Here, you can see the percentage of your assets currently invested in Domestic and International Stocks. Add the percentages together to see your total percentage invested in stocks.
3. **Compare to Alaska Glidepath:** Compare your current percentage invested in stocks to the Alaska Glidepath Target Date fund stock percentage appropriate for your age in the table at the end of this document. This comparison will help you assess whether your current asset allocation aligns with the generally recommended glidepath for a person of your age/retirement date.
4. **Consider Gradual Rebalancing:** If you decide to adjust or rebalance your portfolio, you may want to consider doing so over time. This can help lower the risk that your portfolio is subjected to sudden market fluctuations.
5. **Consider Consulting with a Financial Advisor:** You can always choose to engage with a professional financial advisor to discuss your financial and investment goals as well as decisions specific to your current investment allocations and risk exposure over time.

Hypothetical Examples:

The examples provided below are for educational purposes only and are not intended to be used as personal financial advice nor a substitute for professional financial services.

Active Defined Contribution Rebalancing: Nora is 40 years old and currently has a combined asset allocation in her Defined Contribution account and her SBS account of 37% Domestic Stocks and 13% International Stocks, making her total stock allocation 50%. According to the Alaska Target Date Glidepath, the recommended stock allocation for someone her age is 90%, with a 50% stock allocation being appropriate for a 67-year-old. Nora decides to gradually rebalance her current assets over the next year to bring her stock allocation much closer to the 90% recommended by the glidepath. This gradual approach helps Nora avoid making sudden changes to her portfolio, reducing the potential impact of market timing while aligning her investments more closely with her long-term retirement goals.

Active Defined Contribution Conversion to Target Date Fund: Sam is 55 years old and currently has 30% of his Defined Contribution account invested in Domestic Stocks and 10% in International Stocks, resulting in a total stock allocation of 40%. According to the Alaska Target Date Glidepath, the recommended stock allocation for someone his age is 72%, while his current 40% stock allocation aligns more closely with that of a 75-year-old. Sam decides that he does not want to spend time monitoring his glidepath or rebalancing his portfolio over time. Instead, he chooses to convert all of his assets to a Target Date Fund that is closest to his planned retirement date. By doing this, Sam ensures that his assets will automatically follow the Alaska Target Date Glidepath, providing the appropriate asset allocation adjustments as he ages, without the need for any further monitoring or intervention on his part.

Retired Defined Contribution Monitoring: Jacob is 70 years old and retired. His current asset allocation in his Defined Contribution account includes 30% Domestic Stocks and 13% International Stocks, resulting in a total of 43% of his assets invested in stocks. According to the Alaska Target Date Glidepath, the recommended stock allocation for someone his age is 46%, while a 43% stock allocation is more typical for a 72-year-old. After discussing his situation with his financial planner, Jacob decides that he is comfortable maintaining his current asset allocation at 43% stocks. However, he plans to monitor his asset allocation annually and considers rebalancing in the future, recognizing that since he is no longer making new contributions, his asset allocation not invested in Target Date Funds will not automatically adjust according to the Alaska Target Date Glidepath. This approach allows Jacob to stay aligned with his retirement goals while keeping a close eye on his risk exposure as he continues through retirement.

Retired Defined Benefit Monitoring: Lena is 60 years old and retired, with a Defined Benefit retirement plan that covers nearly all of her living expenses. Her current asset allocation in her SBS account and Deferred Compensation account includes 20% Domestic Stocks and 8% International Stocks, meaning she has 28% of her assets invested in stocks. According to the Alaska Target Date Glidepath, the recommended stock allocation for someone her age is 64%, while her current 28% stock allocation is more typical for an 88-year-old. Lena is considering rebalancing her portfolio to increase her stock allocation closer to the Alaska Target Date Glidepath. However, she hasn't made a decision yet, as she is fairly comfortable financially and doesn't feel an urgency to act immediately. Lena plans to continue monitoring her asset allocation and regularly compare it to the Target Date Glidepath to ensure that her investments remain aligned with her long-term financial goals.

If I am interested in possibly making changes in how my existing assets are invested or how my future contributions are invested, how do I do that?

You can make changes in how your existing asset holdings or your future contributions are invested through Empower's website: https://akdrb.empower-retirement.com/participant/#/login?accu=AlaskaWR, by telephone through an Empower client service representative, or in writing.

Alaska Target Date Fund Glidepath Table

Age	Alaska Target Date Fund Glidepath (Stocks)
25	90%
26	90%
27	90%
28	90%
29	90%
30	90%
31	90%
32	90%
33	90%
34	90%
35	90%
36	90%
37	90%
38	90%
39	90%
40	90%
41	89%
42	88%
43	87%
44	86%
45	85%
46	84%
47	83%
48	82%
49	81%
50	79%
51	78%
52	77%
53	75%
54	74%
55	72%
56	71%
57	69%
58	68%
59	66%
60	64%
61	63%

Age	Alaska Target Date Fund Glidepath (Stocks)
62	61%
63	59%
64	57%
65	55%
66	53%
67	51%
68	49%
69	48%
70	46%
71	45%
72	43%
73	42%
74	41%
75	40%
76	39%
77	38%
78	37%
79	36%
80	35%
81	34%
82	33%
83	33%
84	32%
85	31%
86	30%
87	29%
88	28%
89	27%
90	26%
91	25%
92	24%
93	23%
94	22%
95+	20%