ILLINOIS SECURE CHOICE BOARD

Meeting of Monday, May 23, 2016
James R. Thompson Center
100 West Randolph, Room 16-504, Chicago, Illinois

MEETING MINUTES

The May 23, 2016 meeting of the Illinois Secure Choice Board (Board) was called to order at 2:00 p.m. with the presence of a quorum.

BOARD MEMBERS PRESENT

Michael Frerichs, Chair
Illinois State Treasurer

Josh Potts
Designee for the Illinois State Comptroller (via videoconference)

Miriam Martinez
Office of the City Treasurer - Chief Investment Officer

David Rappaport
Rappaport Reiches Capital Management, LLC - Co-Managing Partner

John Rauschenberger
Technology & Management Association – Executive Vice-President and General Manager

TREASURER'S STAFF

Fernando Diaz, *Director of College Savings*

Courtney Eccles, *Invest in Illinois Program Manager*

Julian Federle, *Chief Policy and Programs Officer*

Rodrigo Garcia, *Chief Investment Officer*

Keith Horton, *General Counsel*

Allen Mayer, *Deputy General Counsel* (via videoconference)

Sandi Raphael, *Assistant General Counsel*

Greg Rivara, *Press Secretary*

Jay Rowell, *Deputy Treasurer*

APPROVAL OF DECEMBER BOARD MEETING MINUTES

Board members reviewed the April 15, 2016 Board Meeting Minutes, which were provided in advance of the meeting. There was no discussion and no changes were made.

Mr. Rauschenberger made a motion to approve the April 15, 2016 Board Meeting Minutes. Ms. Martinez seconded the motion. The motion was unanimously approved.

STAFF UPDATES

Mr. Federle offered an update on legislative progress, specifically on Senate Bill 2420, which clarifies the use of automatic enrollment by employers who voluntarily participate in Secure Choice, changes the cap on fees from administrative costs to total costs, and makes a technical change to the approval process for the investment policy. The legislation also enables data sharing between the Illinois Department of Revenue (IDOR) and the Illinois Department of Employment Security (IDES) to facilitate enrollment and ongoing administration of Secure Choice. The legislation passed in the Illinois Senate 52-0 and the Illinois House of Representatives 113-0. Treasurer Frerichs added that traditionally bills passed late in the session are sent to the Governor in early June and he will have 60 days to sign the legislation. Mr. Federle noted that the Board might consider sending a letter to the Governor, urging him to sign the legislation after the bill has formally been sent to him.

Ms. Eccles provided an update on the data sharing efforts with IDES and IDOR. Both agencies participated in a meeting with the Treasurer's Office (STO) to discuss next steps, how to identify employers who will participate in Secure Choice, and what data will be necessary to enroll program participants. Ms. Eccles reported that the conversation was productive and STO staff will continue to provide regular updates on progress and next steps.

Ms. Eccles also provided Board members with an update on a consumption study for Secure Choice from the University of Chicago Urban Lab. STO had originally reached out to see if the Urban Lab would be willing to conduct a consumption study, as well as a market analysis. The Urban Lab will conduct the consumption study, which will provide the Board with an understanding of who is participating in Secure Choice and how it might benefit those particular individuals over different periods of time.

Ms. Martinez asked if the study could look at how participants would fare with a six percent contribution, as opposed to three percent, based on what was discussed at the Aspen Institute event on April 25, 2015. Ms. Eccles said that issue had not been addressed yet, but it could certainly be brought up with the Urban Lab team. Mr. Rappaport suggested a survey with questions related to participation at different contribution levels might be worthwhile.

Treasurer Frerichs noted that a contribution change would require legislative action. Ms. Martinez said it might be worthwhile to make that change before implementing Secure Choice. Treasurer Frerichs asked Senator Biss whether he could provide any background on the selection of three percent as the default, and his opinion on the feasibility of increasing that number through legislative action. Senator Biss noted that the three percent default was a relatively arbitrary decision but did say that, at the time, proponents were trying to strike a balance between enabling savings while avoiding high opt-out levels. Given the discussion at the Aspen Institute, he noted that the proponents may have been overly conservative in selecting three percent, though it's unclear whether something higher would have been politically palatable.

Mr. Rappaport asked if Senator Biss had a preference for what the higher amount would be. Senator Biss responded that an optimal savings rate is probably higher than six percent, even for lower-wage workers. However, he believes that automatic escalation is a better route for arriving at an optimal savings rate than just starting with a very high default deduction. He did not have a strong opinion on whether it was best to start low and have an aggressive escalation or start with a higher default and then gradually escalate it. Senator Biss also noted that this type of change would likely be easier to move through the legislature after Secure Choice is successfully up and running.

PRESENTATION ON 529 COLLEGE SAVINGS PROGRAM

Mr. Diaz presented on the Bright Start and Bright Directions 529 programs and how the STO administers the programs. While acknowledging that 529 programs are not the same as Secure Choice, he explained that the program structure, administrative duties, and oversight responsibilities were items the Board could consider when structuring Secure Choice.

Presentation slides were provided at the meeting and will be posted on the Secure Choice webpage.

Discussion

Ms. Martinez asked who sold the advisor-sold 529 products, and Mr. Diaz explained that licensed financial advisors who sell a variety of financial products also sell 529 products. Mr. Rappaport asked who the consultants are for the programs. Mr. Diaz replied that the administrative consultant is AKF Consulting out of New York, which has been with the plan since its inception, and the investment consultant is Marquette and Associates, who also preceded this administration.

Mr. Rappaport asked if the program managers acted as recordkeepers for these programs. Mr. Diaz responded yes, that was correct for these programs, though it's not always the case. Sometimes a program manager will work with a separate recordkeeper, but this is the structure that was inherited by the current administration.

There was additional discussion about the tax benefits of 529 accounts and the maximum contribution limits. Mr. Rappaport asked who was in charge of the customer service calls and Mr. Diaz answered that each program manager was responsible for customer service calls, not the STO. The Board also discussed the analysis and message testing currently being conducted for potential participants in 529 programs. Ms. Martinez said it would be interesting to see responses from those who most fit the demographics for the Secure Choice program, specifically lower-income workers. Mr. Rauschenberger noted that Secure Choice includes auto-enrollment, so marketing to encourage people to join might not be necessary. Instead, he said that the focus might be on messaging that keeps people in Secure Choice and discourages people from opting-out. Ms. Eccles added that the messaging would also be important to encourage people to increase savings until auto-escalation legislation is passed, should the Board wish to pursue such an option.

Mr. Rappaport asked how the infrastructure behind the 529 programs might be applicable to Secure Choice. Mr. Diaz responded that the due diligence work and infrastructure is already in place and noted that the STO operations team and investment team can all draw from the work they do for the 529 programs to assist with the Secure Choice program. Mr. Rowell added that from a procurement standpoint, STO was successful in significantly reducing costs for Bright Directions when it was put out to bid in 2015 and that all of the College Savings contracts will expire in the summer of 2017, so there is the potential for greater improvement of costs and efficiencies. Mr. Rowel noted that certain features of the 529 programs could be applied to Secure Choice, such as the ease of making contribution online or in some form outside of payroll.

Mr. Rappaport clarified that the goal was not utilize the specific advisors, custodians, and managers that currently operate the 529 programs but rather to look at the structures that exist and consider whether the models could be used for Secure Choice. Mr. Federle agreed and noted that, like College Savings, Secure Choice accounts would be lower dollar, higher transaction accounts, and the size of Secure Choice and its administrative undertaking will be similar. Mr. Rappaport asked how many staff are focused purely on College Savings. Treasurer Frerichs said that Mr. Diaz is the only staff person purely focused on College Savings; however staff from the investment team, legal team, policy and program team, and the civic engagement team spend time assisting with the 529 programs as well. Mr. Federle noted that there are a few states that house the entire infrastructure of College Savings but most do not and instead have limited staff and contract out much of the infrastructure.

When there was no more discussion, Treasurer Frerichs encouraged Board members to reach out to Mr. Diaz, if they had any questions in the future.

BOARD WORK PLAN AND PROGRAM DESIGN

Treasurer Frerichs asked Ms. Eccles and Mr. Federle to walk through the Secure Choice design presentation they provided to Board members.

Ms. Eccles noted that the Board has had a number of conversations about key pieces of the investment framework for Secure Choice but has not yet addressed many of the programmatic components. The Powerpoint presentation highlighted key issues and focus areas that Ms. Eccles and Mr. Federle have been working on that the Board will need to address over the coming months.

The Powerpoint presentation was circulated to Board members at the meeting and will be posted on the Secure Choice webpage.

Discussion

Mr. Rappaport asked if the legislation contemplates a phased-in enrollment at all. Ms. Eccles noted that it does not address a phased-in approach, and it's likely that legislative changes would need to be made. Senator Biss added that the current statute contemplates complete enrollment by a certain date and given the current language of the proposed DOL rule requiring a mandate for employer participation, it would be much safer to include the phased-in aspect in legislation. He noted that this is the type of change he feels could be moved through the legislature, if it has full Board approval.

Ms. Martinez asked if other states have discussed whether to include allowances for emergency borrowing, similar to the option that exists for certain 401(k) programs. Ms. Eccles responded that some states might be discussing that option but all programs will be limited by the proposed DOL rule, which makes clear that the IRS rules governing different investment products will have to be followed and cannot be limited. In other words, the Board will have to ensure that Secure Choice enables access to Roth IRAs in whatever way is allowed under current IRS rules.

Ms. Eccles suggested that a Secure Choice design subcommittee might be a useful way for the Board to begin addressing the different programmatic areas that were discussed.

Ms. Martinez moved for the creation of a Program Design Subcommittee (Subcommittee). Mr. Rauschenberger seconded the motion. The motion passed unanimously.

Ms. Martinez and Mr. Rauschenberger volunteered to participate on the Subcommittee. Treasurer Frerichs also volunteered to participate on the Subcommittee. Ms. Eccles noted that she would send meeting information to all Board members, so anyone can attend and would reach out to the two Board members who were not at the meeting to see if they would like to participate on the Subcommittee. It was clarified that any key decisions would still be discussed and voted on at a full Board meeting.

The Board also agreed that it would be helpful to hear from different recordkeepers to get a sense of the detail and considerations for operating Secure Choice. Ms. Eccles said she would work on putting together a panel for a future meeting.

The Board members had a general discussion on the need to ensure phased-in enrollment is possible, given concerns over recordkeepers handling a complete enrollment all at once.

<u>INVESTMENT DISCUSSION</u>

Treasurer Frerichs reported that his staff had sent all Board members an updated draft RFP for an investment consultant and that some comments had been submitted. He noted that in one-on-one conversations there was general agreement that the Board should hold off on an RFP until after it had made some decisions regarding the Secure Choice design.

Treasurer Frerichs also reported that his staff has met with staff from the Illinois State Board of Investment (ISBI) multiple times since the April 15th Board meeting to continue conversations about how ISBI could support the Board and provide assistance with implementation of Secure Choice. The plan is to continue these conversations.

Mr. Rappaport mentioned that one of the presenters at the Aspen Institute event from TIAA discussed an annuity option for Secure Choice. He is interested in learning more and having a discussion on annuitization as an option or part of the overall investment strategy. Ms. Eccles said she was happy to make that connection and perhaps have TIAA staff speak at the next Investment Subcommittee meeting.

<u>OLD/NEW BUSINESS</u>

Secure Choice Appropriation

Mr. Rappaport asked if staff was going to cover the appropriations report provided to Board members. Ms. Eccles walked through the report noting that $2.1 million was appropriated for FY16, but those funds would disappear at the end of the fiscal year (June 30, 2016). Mr. Rappaport asked what happens if the money is not spent before June 30th. Treasurer Frerichs noted that the money would remain in that pension fund and could no longer be spent on Secure

Choice. Mr. Rowell added that staff has already requested the same amount for FY17, but it's unclear if and when budget legislation will move forward in the General Assembly.

During discussions over the likelihood that the same amount would be appropriated, staff noted that the money came only partway through the year and many of the anticipated costs were deferred and will hopefully be executed in FY17. They felt optimistic that the same amount would be appropriated. The larger unknown is what the timing is for budget action. It was also clarified that any money used for start-up must be paid back when Secure Choice becomes self-sustaining.

Ms. Martinez suggested that staff reach out to IL AARP and other foundations that might be willing to provide grants or financial assistance, noting that California's Board had to raise one million dollars to move forward with its research and program design.

Legal Counsel for the Board

Mr. Horton said it had come to his attention that the Board might be interested in having its own legal counsel, separate and apart from the administrative role STO is playing. He wanted to make clear that he is happy to help with that process. He noted that there may come a point where there is a potential conflict between the STO and the Board. Mr. Horton reiterated that if the Board is interested in moving forward with retaining separate legal counsel, he's happy to assist.

Mr. Rappaport asked to include this item on the agenda for the next meeting. Ms. Martinez suggested that there might be a law firm willing to offer pro bono services to the Board, given the current budget situation.

PUBLIC COMMENT

There was no public comment.

ADJOURNMENT

The Board asked Ms. Eccles to schedule June subcommittee meetings and a July Board meeting. With no further business, Treasurer Frerichs thanked the Board for its work and adjourned the meeting at 3:40 p.m.