

**ILLINOIS SECURE CHOICE BOARD**

**Meeting of Friday, April 15, 2016  
James R. Thompson Center  
100 West Randolph, Room 16-504, Chicago, Illinois**

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**MEETING MINUTES**

The April 15, 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*

Leslie Munger  
*Illinois State Comptroller*

Kim Fowler  
*Designee for the Governor's Office of Management and Budget*

Miriam Martinez  
*Office of the City Treasurer - Chief Investment Officer*

David Marzahl  
*Center for Economic Progress – President & CEO*

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

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

**TREASURER'S STAFF**

Courtney Eccles, *Invest in Illinois Program Manager*

Rodrigo Garcia, *Chief Investment Officer*

Nikki Giancola, *Executive Assistant to the Treasurer & Deputy Treasurer*

Keith Horton, *General Counsel*

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

Sandi Raphael, *Assistant General Counsel*

Greg Rivara, *Press Secretary*

Jay Rowell, *Deputy Treasurer*

Catherine Shannon, *Legislative Director (via videoconference)*

### **APPROVAL OF DECEMBER BOARD MEETING MINUTES**

Board members reviewed the March 4, 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 March 4, 2015 Board Meeting Minutes. Ms. Fowler seconded the motion. The motion was unanimously approved.*

### **OLD BUSINESS**

The Board did not raise any old business.

Mr. Horton from the Treasurer's staff reminded Board members that they need to submit the Statement of Economic Interest forms that they should have received from the Secretary of State's Office. For Board members who are state employees, the form should include both their role on the Secure Choice Board as well as their state agency. Mr. Horton noted that he was happy to answer any questions for Board members and just wanted to ensure that all forms are submitted and indicate member participation on the Secure Choice Board. Mr. Rappaport asked if the forms should be submitted to Mr. Horton. Mr. Horton said he was happy to take forms from any member who is not part of another state office. Those individuals should give their forms to their specific state office.

### **INVESTMENT SUBCOMMITTEE REPORT**

Treasurer Frerichs provided a brief update from the investment subcommittee meeting, focusing on the discussion and creation of Investment Principles that reflected key priorities identified by Mr. Rappaport, including low-cost, simplicity, funds that mirror the market, and a program that is beyond reproach.

Staff drafted a resolution for approval of four Investment Principles which was circulated to Board members in advance of the meeting. The subcommittee also discussed next steps on an investment consultant RFP and potential ways to work with the Illinois State Board of Investment (ISBI). There were no other reports from the subcommittee.

### **Discussion and Approval of Investment Principles**

Treasurer Frerichs asked if there was any additional discussion or comments on the Investment Principles. Ms. Fowler suggested a wording change to the third Principle to make clear that the list of investment options were suggestions as opposed to required options. All Board members agreed. Mr. Marzahl asked if the description of full transparency in the third section applied to the participants and the public or just the participants. Ms. Martinez explained that the intent was to ensure that participants were not subjected to hidden fees. The Board agreed no language change was necessary.

Mr. Marzahl asked about how many people were expected to land in the default fund option and Ms. Eccles stated that existing data shows that 80 to 85 percent of people tend to remain in default.

*Ms. Martinez made a motion to approve the Investment Principles as amended by Ms. Fowler. Comptroller Munger seconded the motion. The motion was unanimously approved.*

### **ILLINOIS STATE BOARD OF INVESTMENT (ISBI) PRESENTATION**

Bill Atwood, Executive Director of ISBI, and Johara Farhadieh, Deputy Director of ISBI, presented on how ISBI currently administers the Illinois Deferred Compensation (DC) Program managed by ISBI as well as their preliminary thoughts on Secure Choice implementation and potential partnership with the Board.

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

Mr. Rappaport asked for additional clarity on the role of T. Rowe Price within the Deferred Compensation Program. Ms. Farhadieh explained that T. Rowe Price is the recordkeeper for the entire program, and the investment manager for the suite of target date funds. Ms. Martinez asked if ISBI's programs all had outside managers with ISBI overseeing the asset managers and handling the RFP's for asset allocation and selection of asset managers. Ms. Farhadieh stated that ISBI oversees the outside managers and is also responsible for the type of education, communication, and outreach that participants receive. Mr. Atwood noted they rely heavily on the recordkeeper for the education and communication functionality. The Board and ISBI staff also engaged in a discussion about the work that Central Management System (CMS) does and the fact that a recordkeeper could cover those responsibilities.

Mr. Marzahl asked about the demographics of the DC participants and who handles the process when people leave the system. Ms. Farhadieh answered that CMS and T Rowe Price work together. Mr. Marzahl also asked about the median income level for participants stating that he

assumed it may be higher than the median income for Secure Choice participants. Ms. Farhadieh stated that the participants were generally older and while she did not have information on income, she could follow-up later.

The Board and ISBI staff engaged in a discussion about the target date funds offered for the DC program, noting that they are primarily actively managed and that a new RFP is put out for the fund every five year, as well as the plan expenses and participant fees.

Ms. Martinez asked for clarity on what role ISBI would play since her understanding was that ISBI would contract out the consultant, recordkeeping, and investment management responsibilities. Mr. Atwood replied that the Board could choose to utilize ISBI in a variety of ways and the advantage they bring is building off of their existing expertise and leveraging their relationships with current recordkeepers and managers. Ms. Fowler pointed out that ISBI operates both the DC Program and also manages the state pensions. Mr. Atwood noted that his recommendation was not to just assume that T Rowe Price would serve as the recordkeeper but to think about what an RFP would look like to best serve the Board and needs of the program.

Ms. Martinez was concerned about the need to keep Secure Choice separate from the State of Illinois and worried about the optics of the entity managing state pensions also managing Secure Choice. She wanted to ensure the state would not have any liability. Mr. Rappaport noted that ISBI runs the 457 plan and no one assumes the state has liability for that program.

Mr. Marzahl noted that leveraging off of ISBI's expertise doesn't necessarily mean it has to be a contract. He believes there is an opportunity to work with ISBI without handing off the independence of the program. Mr. Rappaport asked how ISBI would need to be compensated. Mr. Atwood noted that the expenses would have to be covered by Secure Choice and cannot come out of the DC program or the state pension funds. Mr. Atwood stated that they have about a dozen staff currently and, depending on the role ISBI would play, might need to hire additional staff.

Treasurer Frerichs asked Senator Biss if he wanted to add any comments to the conversation. Senator Biss noted the constant tension that existed during the legislative process between state run retirement programs and the need to pull away from that with something entirely different. He added that the role envisioned in the drafting process for ISBI was a level playing field role where the Board would make determinations about what kind of vendors it might want or need and ISBI would have the opportunity to be one of those but through an open bid, level playing field process.

Treasurer Frerichs then thanked ISBI staff for presenting and noted that this was just the beginning of a conversation between ISBI and the Secure Choice Board.

## **INVESTMENT ADVISOR DISCUSSION**

Treasurer Frerichs noted that the Investment Subcommittee discussed potential changes to the previous RFP for an investment advisor and referenced the motion made in December by the Board for the Treasurer's Office to issue a different RFP. He asked Mr. Garcia to provide an outline of the changes.

Mr. Garcia explained that the staff had incorporated the suggestions and comments made by Board members at the subcommittee into a new draft RFP, and felt confident that the changes were substantive in nature. They include the addition of the investment principles, and a modified scope of work and respondent questions that focused on market performance funds, target date funds, and best practices from the Thrift Savings Program. He noted that the draft RFP had been passed on to the Treasurer's Chief Procurement Officer to ensure it passes the "procurement muster" for substantive changes. Staff will then pass the draft RFP on to the Board for their review and comment.

Ms. Martinez asked for clarity on the process and engagement of the Board to ensure that the Board did not land in the same situation as before. Mr. Rowell interjected that the previous process was never questioned. Ms. Martinez agreed and clarified that her concern was around ensuring the Board's involvement up front to make sure they didn't have the same issues down the road. Ms. Fowler added that she would like to have a discussion on scoring and who can score. She also would like to ensure that there was a formal vote by the Board on the RFP.

Mr. Rowell added that the staff could circulate the RFP and would be happy to schedule a meeting for the Board on the same day as the Aspen event or the board could wait until the scheduled May meeting. He noted that the Board had time to make decisions about scoring once the RFP is out on the street. The process does allow for other state employees to participate in the scoring. Mr. Rauschenberger added that his previous desire was to ensure Board participation, including attending meetings and being part of the process. Mr. Rowell added that the Treasurer's Office is happy to work with the Board to enable that. He reiterated that it is not a problem to add scoring members from the other state agencies, though there would be significant concern with Board members scoring.

Mr. Rappaport asked how this RFP changes the Board's ability to engage with ISBI given that one of their offers was to assist with selecting an investment consultant. Mr. Horton noted for the Board's awareness that the section of statute referencing ISBI and the Treasurer's Office does make clear that an investment manager must be selected via an open bid process.

Ms. Fowler noted that she was not a member of the Board when the first RFP was presented and felt that perhaps the Board was moving too quickly without knowing what role ISBI would play.

Mr. Rowell suggested that it might be useful to have the Board hear from the Treasurer's Office about the 529 College Savings Program. Ms. Fowler agreed that was a good idea and highlighted that her concern was about creating an entirely new infrastructure for Secure Choice. Ms. Martinez noted that she did not feel like the Treasurer's Office was taking over the Program but rather serving as a staff support because the Board does not have its own staff. She was concerned that the Board was considering handing over its responsibilities to ISBI.

Mr. Rauschenberger agreed with Ms. Martinez. His understanding was that ISBI was coming in to provide education not to take over the program. He agreed that ISBI would need to participate in an open bid process. Mr. Rappaport pointed out that ISBI could be hired and managed by the Board and he did not see this as handing over responsibility.

Mr. Marzahl returned back to the RFP discussion and said it would be useful to get some sort of cover memo highlighting the changes made to the RFP. He also believes it's possible for the Board to approve the RFP and then have enough time to determine the scoring process. Mr. Marzahl commented that he has grave concerns with being in a position where the Board is connected to or subsumed with the ongoing state retirement crisis. He thinks the optics for a new program to be connected with ISBI would be a terrible idea. He believes it is possible to work with ISBI in some form but the Board must also think the optics and about how this would be perceived publicly. Ms. Martinez noted that these were the exact concerns she was trying to articulate earlier.

Ms. Fowler said she was fine with the suggested process of approving an RFP first and then taking time to discuss scoring at a later time. Mr. Rappaport asked if this would preclude the Board working with ISBI on an investment consultant. After additional discussion on the role of an investment consultant, scope of work, and the potential costs, the Board decided they would review the RFP after receiving it from staff and would make the decision about whether to put out the RFP at the next scheduled meeting. The hope is to schedule a meeting for the same day as the Aspen event on April 25<sup>th</sup>. Simultaneously the Board agreed to continue the conversation about who would score, and how the Board could leverage expertise from ISBI and learn more about the 529 College Savings Program.

## **STAFF UPDATES**

Ms. Eccles provided a brief update on the Aspen Institute Forum scheduled for April 25<sup>th</sup>. She noted that all Board members are already on the RSVP list and encouraged them to invite others. The forum will be structured to give Board members the first opportunity to ask questions and engage with experts. An invitation should have gone out for a private lunch that Aspen is hosting after the event.

Ms. Eccles also updated the Board on the SB2420, noting that the legislation passed out of the Senate unanimously and it is expected to move through the Illinois House smoothly. She reminded the Board that this legislation enables the data sharing with state agencies to identify which Illinois employers shall participate in Secure Choice.

She reminded Board members to hold the date for the previously agreed May 23<sup>rd</sup> meeting.

### **PUBLIC COMMENT**

There was no public comment.

### **ADJOURNMENT**

With no further business, Treasurer Frerichs thanked the Board for its work and adjourned the meeting at 4:05 p.m.