**ILLINOIS SECURE CHOICE SAVINGS BOARD**

**Meeting of Thursday, February 16, 2023**
**Held In-Person & Remotely by Videoconference**

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**MEETING MINUTES**

The February 16, 2023 meeting of the Illinois Secure Choice Board ("Board") was called to order by Mr. Diaz shortly after 3:00 p.m. CT with the presence of a quorum.

**BOARD MEMBERS PRESENT**

Fernando Diaz, *Designee for the Illinois State Treasurer (In-person)*

Cesar Orozco, *Designee for the Illinois State Comptroller*

Curt Clemons-Mosby, *Designee for the Illinois Governor's Office of Management and Budget*

Staci Mayall, *Board Member*

Roderick Bashir, *Board Member*

Lotika Pai, *Board Member*

Erica Marquez Avitia, *Board Member (In-person)*

**TREASURER'S OFFICE STAFF**

Joe Aguilar, *Chief Investment Officer (In-person)*

Sarah Hillegass, *Director of Public Market Investments (In-person)*

Jacob Hilliard, *Deputy Director of Public Market Investments (In-person)*

Erica Tremble, *Assistant General Counsel (In-person)*

Catherine Shannon, *Chief Legislative & Policy Officer*

Sara Meek, *Director of Legislative Affairs*

Yolonda Williams, *Deputy Director of Legislative Affairs*

Christine Cheng, *Director of Secure Choice (In-person)*

**APPROVAL OF BOARD MEETING MINUTES**

Board members reviewed the November 17, 2022 Board Meeting Minutes, which were provided in advance of the meeting.

*A motion was made by Mr. Bashir, seconded by Mr. Orozco to approve the November 17, 2022 Board Meeting Minutes. The motion carried with six votes in favor and one abstention.*

**STAFF UPDATES**

Ms. Cheng provided an update on program activities during Q4 2022. She noted that the quarter was a very busy one with continued communications to and engagement with Wave 4 employers whose registration deadline passed on November 1. She noted additional activity at year end, with many employers wanting to have everything in order by the end of the year or the start of the new year. She stated that the program is starting to plan for communications to Wave 5 in 2023, which will represent the program's single largest wave. Ms. Cheng also highlighted that in January 2023, the program reached an important milestone with saver assets topping $100 million for the first time. This accomplishment generated some media interest, which led to the Treasurer being interviewed on Illinois Secure Choice twice in Spanish, a first for the program.

She then provided an update on program enforcement. The Treasurer's Office has been working in partnership with Ascensus and the Illinois Department of Revenue (IDOR) on the enforcement process. Ms. Cheng presented a timeline of activities, noting that the Treasurer's Office sent letters to noncompliant employers subject to IDOR enforcement in 2023 in mid-November 2022 and again in mid-December 2022 in advance of IDOR sending its first batch of Notices of Proposed Assessment on February 6, 2023, and its second batch on March 6, 2023. The IDOR Notices informed employers that they have 120 days to come into compliance before the proposed penalty is assessed and directed employers to the Client Services team and the program website for more information on next steps. Ms. Cheng shared that since the Treasurer's Office first sent notices in November 2022, the population of noncompliant employers has decreased by 40% and that the Treasurer's Office has continued to conduct outreach to these noncompliant employers.

In response to a question from Mr. Orozco about an abatement process, Ms. Cheng responded that IDOR has an administrative hearing process which is available to taxpayers for the Secure Choice tax type and that it is the same process as is available for other tax types.

Ms. Cheng then reviewed the year-to-date expenditures for the program, sharing that expenses are generally in line with those from the previous year. Ms. Cheng noted that the Treasurer's Office is looking to fill the Deputy Director of Secure Choice role and conducted several interviews recently.

Mr. Diaz then discussed the legislative initiative for 2023. Ms. Cheng reviewed that, as discussed previously at the 2022 Q4 meeting, there are several components to the legislative initiative for the program and then she invited Ms. Shannon to provide more information on the legislative process and timeline. Ms. Shannon shared that the legislative team had introduced a Senate bill the previous week and that the team was awaiting the House bill number, stating that likely only one bill will eventually make it to the Governor. She then shared information on upcoming deadlines. She noted that both chambers are set to adjourn on May 19 and that the General Assembly has 30 days from final passage in which to send the bill to the Governor, and that the Governor has 60 days to act. Therefore, the hope is that the bill will reach the Governor by sometime in June and that it will be signed in July or August. Ms. Shannon said it is not known if there will be requests for amendments, and shared that AARP supports the bill, along with Woodstock Institute. Ms. Shannon also outlined that the Board would need to promulgate rules regarding the new fee structure, rules that will need to be approved by the Joint Committee on Administrative Rules (JCAR). She shared that the rulemaking process can take six months to one year, though her team typically tries to have everything done within 6-8 months.

In response to a question from Mr. Orozco, Ms. Shannon responded that there was no known opposition at this time. She also shared that her team is conducting outreach to legislators and groups that are typically interested in these matters.

In response to a question from Mr. Clemons-Mosby, Mr. Diaz shared that the Treasurer's Office will send an interim update to Board members on legislative progress in advance of the Q2 meeting.

Mr. Diaz asked the Board to approve the Treasurer's Office moving ahead with the 2023 Secure Choice legislative initiative.

*A motion was made by Mr. Orozco, seconded by Ms. Mayall to allow the Treasurer's Office to pursue the 2023 legislative initiative. The motion carried unanimously.*

**<u>DISCUSSION – SECURE CHOICE QUARTERLY REPORT</u>**

Troy Montigney of Ascensus started his remarks by sharing his thoughts on the progress of the program enforcement process, noting the Treasurer's Office's commitment to undertaking the process in a thoughtful, reasonable, and appropriate way as well as the additional efforts of IDOR to reach taxpayers.

Mr. Montigney then highlighted heightened activity by employers across 2022, noting the explosive growth in Q4, which was driven both by the Wave 4 deadline and communications to noncompliant employers. The program saw a 40% increase in the number of employers adding employee rosters and a 21% increase in employers starting payroll. Mr. Montigney noted the high proportion of employers that registered in 2022 moving onto the second step of compliance, adding an employee roster, which may be due in part to the smaller size of employee rosters among Wave 4 employers compared to earlier waves.

Next, Mr. Montigney reviewed historical wave response rates, noting that even post-deadline, the program continues to see activity from Wave 4 employers. He also shared that Wave 5 in 2023 will represent more than 50% of eligible employers.

Mr. Montigney then discussed employer and employee trends. He noted that the number of employers submitting contributions each week has increased over the last year, with nearly 1,800 employers in the most recent week, setting a record for a business-as-usual week not skewed by a holiday. Similarly, the number of employers adding employees each week has increased significantly over the last year. During the week of November 27, 2022, this measure reached its highest level at 789 employers.

Mr. Montigney then presented the Saver Data Summary, noting that saver assets crossed the $100 million mark in Q1 and that the average balance is nearing $1,000. He pointed to the effect of the second instance of the annual auto-escalation feature, which has brought the average saver contribution rate to 5.95% at the end of January 2023.

In addition, Mr. Montigney presented 2022 Client Services metrics for both employers and savers, including service level (93.60%), abandon rate (0.51%), average speed to answer (0:12), and average talk time (6:13). He noted that the call volume in 2022 Q4 was the highest in the history of the program. He shared that the Client Services team has achieved service level agreements for 23 consecutive months. He highlighted that Client Services representatives have received additional training on more complex interactions and topics related to tax time. He also reported out on the results from internal quality measures collected via Every Caller Has an Opinion (ECHO) surveys, sharing that the team strives to achieve an 85% benchmark, which the team was able to do every month of 2022 outside of January, the busiest month. He also stated that the platform that representatives use has been updated to show enforcement status, which is critical information for interactions with employers. He then outlined key call drivers anticipated for 2023, including issuance of annual statements, continued compliance outreach, and Wave 5 outreach.

Mr. Montigney then provided an update on 2023 marketing priorities, including planning for Wave 5, updating web and collateral materials, and transitioning program communications to Salesforce Marketing Cloud which will permit more nimble operations. Mr. Montigney then shared the planned Wave 5 communications schedule across 2023, noting that the increased frequency of pre-deadline notices utilized in 2022 for Wave 4 would be replicated for Wave 5.

Mr. Diaz noted that the program is exploring expanded marketing opportunities, including pursuing some options in Spanish, and Mr. Montigney noted that Ascensus is planning to launch efforts to re-engage employers that have lapsed.

Ms. Pai lauded Ascensus's update to its platform to show enforcement status and the remarkable average time to answer.

Jaimee Niles of Ascensus then provided a quarterly overview and summary of field team activities. She shared a recap of Q4 activities, which included 221 employer meetings, 6 employee meetings, and 3 outreach activities, totaling 230 activities. Through the Webinar Support Program and one-on-one support, the field team reached over 3,000 employers, resulting in 846 employers submitting contributions and 2,148 employers adding employee rosters. Through the field team's outreach to noncompliant employers, 216 employers have submitted contributions, 610 employers have added employee rosters, and 88 employers have reported exemptions. Ms. Niles then provided metrics for the Webinar Support Program, which comprises four offerings (an employer overview, two employer how-to sessions, and a saver webinar). Through the Webinar Support Program, 297 individuals attended a webinar, with 87% of employers making onboarding progress after attending a session.

Ms. Niles then provided more details about outreach events in Q4, including multi-chamber events and an event at the Palatine Library. Ms. Niles also shared testimonials from two program participants. She then provided an overview of goals and priorities for 2023 Q1, which include continuing outreach to noncompliant employers, increasing program awareness, and driving increased participation in the Webinar Support Program.

David Smith of Marquette Associates then provided a review of the market environment, noting that 2022 was a disappointing year. The rapid rise in interest rates took its toll on capital markets, with the Federal Reserve increasing short-term rates eight times to 4.5%-4.75%, moves that put downward pressure on fixed income and that created a drawdown in equity markets.

Mr. Smith discussed inflation, noting the effect of low unemployment rates, wage expansion, and rising interest rates. He shared the expectation that the Federal Reserve will continue with rate hikes and perhaps stay at a higher rate for a longer period.

Mr. Smith spoke about the probability of a recession, discussing the consensus view that we could encounter a modest recession sometime later in 2023. He also provided some historical data points on past rate-tightening cycles that may inform what may happen in this period. He also discussed the possibility of a soft landing and that we may not encounter a recession at all.

In terms of the assets underpinning the Illinois Secure Choice portfolios, the poor performance of fixed income in 2022 has had an impact. The good news is that currently in early 2023, we have access to more attractive yields.

The sensitivity of US and non-US equities to rate increases puts downward pressure on equity prices. Mr. Smith noted that there has been a very healthy equity market environment for the better part of the last 6 years, with 2018 being the exception. He noted that it is not surprising to see some reversion as interest rates have increased. Except for energy, all sectors in the S&P 500 were down for 2022. Mr. Smith highlighted that with the current level of selloffs, valuations become much more attractive, and as those valuations improve, we can expect to see more attractive returns.

He also noted that markets tend to recover the year after a negative calendar year, which is not to say that we will necessarily see a positive year after 2022, but that history has shown that oftentimes, a selloff year is followed by a positive year.

He then discussed global equity performance, noting that those equities were just as exposed to downward pressures as US equity, however, Q4 did show some stronger performance from non-US equity, which is in part due to improved currency across developed and emerging markets. Across 2022, currencies started to deteriorate relative to the US Dollar up until about Q4, and that improvement helped with non-US equity returns. He also pointed out that non-US equity is trading at a discount, which also contributed to why we saw healthy returns from non-US equity markets in Q4, a trend which has continued in early 2023.

In summary, Mr. Smith shared that 2022 was a disappointing year and that so far in 2023, we are on positive footing for both fixed income and equities as there has been increasing clarity regarding the Federal Reserve's direction.

In response to a question from Mr. Diaz, Mr. Smith shared his thoughts on the possibility of navigating a soft landing and noted the disconnect between what the Federal Reserve has signaled and what the markets expect. Mr. Aguilar reminded members that policies and principles that have been implemented were generated within long-term strategic thinking and that the target date portfolios are set up to withstand shocks like those seen in 2022 and take advantage of growth markets in the preceding years.

Mr. Aguilar started his presentation by providing a review of underlying fund performance, investment options, and asset breakdowns for the last quarter. He noted that starting in Q4 of 2022 and carrying into early 2023, we have seen positive performance including strong equity markets, both domestic and international and across developed and emerging markets, that was driven in part by a weakened dollar and more optimism overseas. The rally in equity markets led to higher returns in Q4, particularly in the longer-dated target date funds. Across 2022, with the portfolios tracking the broader markets, there was negative performance. Mr. Aguilar noted that looking across three- and five-year spans, we continue to see positive returns and good comparative rankings of the BlackRock target date funds, even in comparison with target date funds that are actively managed. Mr. Aguilar reiterated the importance of time versus timing, noting the thoughtful construction of the LifePath series.

Mr. Aguilar then shared a recent update regarding the BlackRock LifePath series, specifically that a named Portfolio Manager was replaced with another Portfolio Manager. Mr. Aguilar shared that the change has more of an impact on the operational front, versus management of implementation of strategic allocations. The outgoing Portfolio Manager was not involved in setting asset allocations or conducting LifePath research. Mr. Aguilar shared that the Treasurer's Office investment team is continuing to conduct diligence on this change and that the team will keep the Board apprised of any updates or action items required.

Mr. Aguilar also previewed that at the Q2 Board meeting, the Board will conduct the annual review and approval of the Investment Policy Statement. He also shared that going forward, Sarah Hillegass will be providing investment updates on behalf of the Treasurer's Office investment team.

## PRESENTATION – ENVIRONMENTAL LANDSCAPE, AKF CONSULTING GROUP

Andrea Feirstein of AKF Consulting Group presented an update on the state-facilitated retirement program landscape, noting key observations from the past year, namely: 1) asset and account growth has accelerated, 2) implementation activity has picked up, 3) concentration among program managers has increased, and 4) the hybrid fee structure dominates.

Related to the overall market, Ms. Feirstein focused on the longest-standing programs, those run by Oregon, Illinois, and California, noting that in 2022, accounts increased by about 48% from 2021, an increase driven largely by growth in California. Related to assets, there was an increase of nearly 57% in 2022 among these three programs, even with a down market. She noted that the average monthly contributions increased in 2022 compared to 2021, which is driven by longer durations of program participation and the impact of auto-escalation of contribution rates.

Moving to implementation activity, Ms. Feirstein pointed out the high level of activity since 2022 started and previewed what is to come in 2023, notably Virginia's planned launch by July 2023, and the 5 states with a future launch (New York, New Jersey, Delaware, Maine, and New Mexico).

Regarding the launched programs, Ms. Feirstein noted that there are only two program administrators – Ascensus and Vestwell. Related to investment options across the programs, there is currently only one program that uses a customized target date fund structure (Connecticut). Specifically, in Connecticut, an investment advisor has created the target date fund structure, utilizing funds available through Fidelity, Schwab, and Vanguard, and created the asset allocation in the funds, whereas the other state programs are using off-the-shelf funds. She also pointed out that over time, more states have decreased the length of their default holding periods, most recently Oregon, which changed to 30 days.

Ms. Feirstein then discussed the fee structures in place across the launched programs, noting that Illinois is the only state without dollar-based fees and that utilizes strictly an asset-based fee. As well, she noted that some states have moved to a hybrid fee structure for the state portion of fees. She then reviewed how different fee structures impact savers, pointing out that exclusively asset-based fees lead to higher relative costs as account balances grow and that dollar-based fees have an outsized relative effect on smaller accounts. Over time, a hybrid fee structure will benefit a saver as their account balance grows, as well as providing the program administrator with more revenue more quickly to help offset startup costs.

**BOARD ENRICHMENT – IRA COMPLIANCE REQUIREMENTS, ASCENSUS**

Carrie Horn of Ascensus presented information on IRA compliance requirements, discussing what is required under federal statute and related regulations. She noted that compliance is so critical not only because if there is a lack of compliance, the IRA custodian could be subject to fines, but more importantly, the accounts could become taxable investment accounts. Ms. Horn provided details on three areas of compliance that IRA custodians are responsible for: 1) documents, 2) reporting, and 3) withholding. She shared that Ascensus monitors multiple sources to ensure full compliance, including the Internal Revenue Service and laws passed by Congress.

Related to documentation, she shared that IRA custodians are required by the Internal Revenue Code to provide IRA owners with certain documentation to legally establish the IRA, namely the plan agreement, disclosure statement, and financial disclosure. Ascensus also provides IRA owners with a program description that details how the program works.

Regarding federal tax withholding, Ms. Horn discussed the requirement of an IRA custodian to inform IRA owners that they can request that taxes be withheld or that they can waive tax withholding altogether. The custodian is also responsible for depositing the withholdings and reporting withholdings to the Internal Revenue Service and the IRA owner.

Ms. Horn then discussed tax reporting, noting that there are several reports and tax forms required, including the Fair Market Value statement, the account statement, IRS Form 5498, and IRS Form 1099-R.

In response to a question from Mr. Diaz, Mr. Montigney shared that there are currently 15 traditional IRA accounts in the program.

## PUBLIC COMMENT

There was no public comment.

## OLD AND NEW BUSINESS

Mr. Diaz noted the Q2 Board meeting is scheduled for Thursday, May 18, and that in the interim, the Treasurer's Office will provide an update on the legislative initiative and program staffing.

He also noted the upcoming America Saves Week.

There was no old business.

## ADJOURNMENT

*With no further business, Mr. Diaz adjourned the meeting.*