ILLINOIS SECURE CHOICE SAVINGS BOARD

Meeting of Thursday, May 18, 2023
Held In-Person & Remotely by Videoconference

MEETING MINUTES

The May 18, 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 (In-person)*

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

Staci Mayall, *Board Member (In-person)*

Roderick Bashir, *Board Member (In-person)*

Lotika Pai, *Board Member (In-person)*

Erica Marquez Avitia, *Board Member*

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 (In-person)*

Sara Meek, *Director of Legislative Affairs (In-person)*

Yolonda Williams, *Deputy Director of Legislative Affairs (In-person)*

Matthew Kisling, *Deputy Director of Legislative Affairs & Outreach*

Austin Stadelman, *Policy Analyst*

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

Deanna Verduin, *Deputy Director of Secure Choice (In-person)*

APPROVAL OF BOARD MEETING MINUTES

Board members reviewed the February 16, 2023 Board Meeting Minutes, which were provided in advance of the meeting. There was no discussion and no additional changes were proposed.

A motion was made by Mr. Bashir, seconded by Ms. Mayall to approve the February 16, 2023 Board Meeting Minutes. The motion carried unanimously.

STAFF UPDATES

Ms. Cheng provided an update on program activities during Q1 2023. She noted that 2023 has already been tremendously busy with continued engagement with Wave 4 employers, whose registration deadline passed on November 1, 2022, along with preparing for communication and outreach to Wave 5 employers. She also stated that the program added a new Deputy Director, Deanna Verduin, in early March. She noted that at the start of Q1, Illinois Department of Revenue (IDOR) sent the annual data for 2022, which is the basis for determining employer wave assignments for 2023. The estimated size of Wave 5 is 45,000 employers which includes employers that had 5 to 15 employees in 2022 along with larger employers that are newly eligible for Secure Choice. Ms. Cheng stated that Wave 5 is likely the most meaningful segment because the smallest businesses have a greater workplace retirement coverage gap.

She then provided an update on program enforcement. The Treasurer's Office has been working in partnership with Ascensus and IDOR on the enforcement process. Ms. Cheng presented a timeline of activities, noting the group of noncompliant employers had been split into three batches. IDOR sent notices of proposed assessment to each batch between early February and early May 2023, and the Treasurer's Office sent follow-on letters to each batch to outline the onboarding process and timeline. She stated that the Treasurer's Office is also conducting phone outreach to noncompliant employers to drive action.

Ms. Shannon then provided a legislative update. The Illinois Secure Choice legislation, House Bill 3155, passed the House 106 to 0 in March and passed the Senate 36 to 16 in early May. The General Assembly has 30 days to send the bill to the Governor (therefore by June 5), and the

Governor has 60 days to act on the bill (therefore by August 5). Ms. Shannon provided a summary of what elements were included in the bill and stated that her team will begin working on administrative rules this week with the intent to send those rules to the Joint Committee on Administrative Rules (JCAR) this summer after consultation with the Board.

Mr. Diaz added that a special board meeting would be held over the summer for review and approval of the administrative rules as well as the amendment of the Ascensus contract.

Ms. Cheng then reviewed the year-to-date expenditures for the program, sharing that expenses are generally in line with projections.

DISCUSSION – SECURE CHOICE QUARTERLY REPORT

Troy Montigney of Ascensus started by sharing his excitement on the employer data update, specifically the response stemming from pre-enforcement, compliance-driven outreach and formal enforcement action.

Mr. Montigney then reviewed the cumulative employer response and noted that registration progress slowed over the most recent quarter but gave way to the second (adding employees) and third (submitting payroll) phases of the onboarding process with an increase of nearly 17% in employers starting payroll deductions and an 8.3% increase in the number of employers adding employee rosters in Q1 2023.

Next, Mr. Montigney highlighted a 31% response rate from those who received the IDOR Notice of Proposed Assessment and the assumed response rate of 47.7% (a rate which factors in those employers expected to be compliant at the end of their 120-day period). Since pre-enforcement outreach began in November of 2022, the number of noncompliant employers decreased by 54%, 217 new employers have submitted payroll with $803,000 in cumulative contributions, and 3,100 eligible employees have come into the program. He also noted Illinois's enforcement action is the most significant in the state auto-IRA industry to date and represents a group effort from the Treasurer's Office, Ascensus, and IDOR.

Mr. Montigney then discussed employer and employee trends. He noted that in Q1, the average number of employers submitting contributions each week was 1,845, an increase of 33% quarter over quarter and a 47% increase year over year. During the week of April 23, 2023, this metric reached its highest level at 1,981 employers. Similarly, the number of employers adding employees each week has increased significantly over the last year with an average of 484 in Q1 representing a 56% year-over-year increase. He noted that this growth has leveled off after the Wave 4 deadline but has spiked periodically throughout the enforcement period.

Mr. Montigney then presented the Saver Data Summary, stating that the 30-day contribution total is now approaching $4.5M and total contributions are approaching $150M. Additionally, program assets crossed the $100M milestone in Q1. He also noted that the Q1 increase of 5,000 accounts is up 41.9% year over year and the high acceptance rate of the annual auto-escalation feature has kept the average saver contribution rate near 6%.

In addition, Mr. Montigney presented 2023 year-to-date Client Services metrics for both employers and savers, including service level (84.16%), abandon rate (0.55%), average speed to answer (0:21), and average talk time (5:54). He noted the 51% year-over-year increase in call volume for the quarter. He pointed out two new reporting metrics, callbacks (36) and average callback time (< 2 minutes), resulting from new features implemented in the spring that provide estimated wait time and the option to receive a call back rather than waiting. He then shared that the Client Services internal quality metric surpassed the 85% benchmark for Q1 with each month being above 90% and stated that Client Services Representatives completed extensive training in Q1 on more complex payroll provider interactions.

Mr. Montigney then provided a marketing update stating that content edits are being made for Wave 5 and several updates to the program website have been completed including a recorded webinar, updated links, and a new webinar page. Additionally, the transition to Salesforce Marketing Cloud continues to proceed. Mr. Montigney then shared the planned Wave 5 communications schedule across 2023 with the 100-day notice commencing on July 24, 2023, and then touch points every 15 to 20 days until the November 1, 2023, deadline. He then highlighted the updates made to the webinar pages for both employers and savers on the program website that promote the webinars and provide easier access to the registration page as well as the recorded webinars. Mr. Montigney then responded to a question regarding the callback feature and the expected volumes with Wave 5 coming up, stating that he expects wait times and callback times to increase as the deadline approaches. The expected higher volume is the reason why Ascensus instituted the new phone features, and there are also plans to bring in additional classes of representatives to address the increased volume that comes with the deadline.

Jaimee Niles of Ascensus then provided a quarterly overview and summary of field team activities. She shared a recap of Q1 activities, which included 326 employer meetings and 3 outreach activities, totaling 329 activities. Additionally, 953 noncompliant employers were contacted to add employee information or to submit payroll contributions. Through the Webinar Support Program and one-on-one support, the field team’s efforts resulted in 429 employers submitting contributions, 457 employers adding employee rosters, and 135 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, 96 individuals attended a webinar, with 87% of employers making onboarding progress after attending a session. She then highlighted the outreach efforts happening with chambers, libraries, rotaries, and other organizations. Ms. Niles also shared a testimonial from a facilitating employer.

Ms. Cheng added that the Treasurer's Office will try to increase staffing capacity within the office by adding a temporary worker at the start of the academic year for FY24 and hopefully an intern during the same time frame, as well as looking for an additional person to help with outreach. Mr. Diaz added that these efforts are in addition to leveraging people within the office who are also assisting with phone calls and outreach.

Ms. Cheng then responded to a question regarding working with Small Business Development Centers (SBDCs) to better assist the small businesses in Wave 5 by sharing that the Treasurer's Office led a presentation for the Lake County SBDC recently, and she is attempting to connect with the person in charge of all SBDCs statewide to develop a collaborative relationship. It was also recommended that the Treasurer's Office connect with the Illinois Department of Commerce and Economic Opportunity (DCEO), specifically about the Small Business Community Navigator program. Ms. Niles then explained that Ascensus also has staff on hand to help with multilingual support, and Mr. Diaz added that the contract worker starting in the fall is bilingual English/Spanish.

David Smith of Marquette Associates then provided a review of the market environment in Q1, noting that the start of 2023 has been volatile. The Federal Reserve has continued to increase short-term rates with the most recent increase bringing the rate to 5%, which has helped to curb inflation but has also created significant stresses among regional banks with three bank failures this year and the sale of one of the oldest financial institutions.

Mr. Smith discussed that there are signs that inflation is easing, which implies that the aggressive rate-hiking cycle has worked. However, inflation is still high due in part to low unemployment rates, which typically mean higher wages which can make inflation harder to control.

He then discussed the likelihood that the Fed will pause its rate hikes to evaluate the data, and that the markets tend to believe there will be rate cuts by the end of the year which will be stimulative to both equity and fixed-income prices.

In terms of the assets underpinning the Illinois Secure Choice portfolios, there is now higher yield for fixed income in the portfolio and a more attractive rate of return for participants. US equities year to date have seen healthier returns with rebounds in the areas of Information Technology, Communication Services, and Consumer Discretionary being key drivers.

Mr. Smith then discussed global equity performance, noting that those equities have outperformed US equities for the first time in quite a while, which was largely attributable to China easing its COVID restrictions, some abatement in energy prices in Europe, and emerging markets being ahead of the curve in their rate-tightening cycle. Finally, in terms of overall GDP expectations, he stated that there is a decline in overall forecast which suggests there are more attractive growth expectations.

In response to a question regarding the program's exposure to small or regional banks, Mr. Hilliard stated that the exposure is 1% to 2% across the Target Date Funds. He then went on to state that the first quarter was very strong for longer-dated Target Date Funds due to their higher equity allocations. Specifically, the strongest performer for Q1 was the Target Date Retirement Fund 2065, which returned 6.83%, and the base Target Date Retirement Fund returned 4.41%. The Growth Fund was up 7.26% for the quarter. Related to the Target Date Funds, he noted that each of the underlying 10 sectors within the allocations were positive in Q1. Mr. Aguilar added that the overall makeup is heavily weighted on the large cap side; therefore, the effects on the small cap banks weren't as material in terms of drivers of performance. Mr. Hilliard added that even the money market fund positions within the portfolio performed positively and reiterated that it was a strong first quarter.

Ms. Hillegass followed up on an item discussed at the Q1 Board meeting regarding a named Portfolio Manager from the BlackRock LifePath Index Suite stepping down. The Treasurer's Office investment team met with BlackRock to discuss the responsibilities of that Portfolio Manager and was informed that the Manager had only been serving in an advisory capacity since 2018. After discussions with the Ascensus investment team and investment consultant Marquette Associates, the Treasurer's Office investment team does not have any concerns with the remaining leadership for the LifePath Suite and does not have any recommended changes for the Board.

DISCUSSION AND APPROVAL OF INVESTMENT CHANGES TO CAPITAL PRESERVATION & 90-DAY HOLD FUND

Mr. Smith then discussed that there are two money market funds in the portfolio – the State Street Institutional U.S. Government Money Market Fund and the State Street Institutional Liquid Reserves Fund. The recommendation is to combine all money market investments into one U.S. government money market fund, specifically the Cabrera Capital Money Market Fund. The U.S. government money market fund will offer a higher level of safety and liquidity compared to the prime money market fund, and in addition, Cabrera is a Chicago-based financial services firm and is aligned with the Illinois Secure Choice Investment Policy Statement and the preference for including diverse firms. The underlying assets will continue to be managed by State Street, and this option is one of the safest investments for money market investors. Ms. Hillegass added that there had been some operational concerns regarding prime money market funds, specifically that there could be liquidity gates imposed on the prime money market funds. As interest rates have increased over the last year, the spread between the yields on the prime and U.S. government money market funds has narrowed considerably, resulting in an attractive opportunity to move to the U.S. government money market fund and without an increase in costs to participants. Ms. Hillegass described the search process undertaken by the Treasurer's Office, Ascensus, and Marquette Associates. She reiterated that the recommendation is to replace both the prime money market fund underlying the capital preservation option and the State Street Institutional U.S. Government Money Market Fund with the Cabrera Capital Money Market Fund. This change would align the underlying funds of both the 90-day hold option and the capital preservation option to be a single underlying investment.

In response to a question regarding the implementation timeline, Mr. Aguilar stated that the investment team is working with Ascensus to complete this change as soon as possible but will report back on a specific timeline. Mr. Diaz added that communication to participants will also be determined, and updates will be provided.

A motion was made by Mr. Orozco, seconded by Mr. Bashir to approve the investment changes. The motion carried unanimously.

APPROVAL OF INVESTMENT POLICY STATEMENT

Mr. Diaz stated that there are no changes to make to the Investment Policy Statement at this time; however, it needs to be reviewed on an annual basis per statute. He added that there will be recommendations for the Board to consider at a future meeting, but for now, the recommendation is to approve the current statement without any changes.

A motion was made by Ms. Mayall, seconded by Ms. Marquez Avitia to approve the Investment Policy Statement. The motion carried unanimously.

APPROVAL OF BOARD INSURANCE POLICY RENEWAL

Ms. Tremble presented the proposal for the renewal of the fiduciary liability and cyber liability insurance policies that would go into effect on July 31, 2023. She stated that based on last year's policy, there is a 2% cost increase; however, last year there was a decrease so based on the policy from two years ago, the pricing is comparable. The total premium for both policies is $110,500 for annual coverage. The only change in terms is a change from a $5,000 to a $10,000 retention for employment practices defense coverage, a change which is due to market conditions.

A motion was made by Ms. Pai, seconded by Mr. Orozco to approve the renewal of the insurance policies. The motion carried unanimously.

PUBLIC COMMENT

There was no public comment.

OLD AND NEW BUSINESS

Mr. Diaz noted that the Q3 Board Meeting is scheduled for Thursday, August 17. Additionally, there is the potential for a special board meeting prior to the August date.

There was no old business.

ADJOURNMENT

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