ILLINOIS SECURE CHOICE SAVINGS BOARD

Meeting of Thursday, August 17, 2023
Held In-Person & Remotely by Videoconference

MEETING MINUTES

The August 17, 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)*

Jennifer Butler, *Temporary Designee for the Illinois Governor's Office of Management and Budget*

Staci Mayall, *Board Member*

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

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

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)*

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*

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

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

<u>APPROVAL OF BOARD MEETING MINUTES</u>

Board members reviewed the May 18, 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 May 18, 2023 Board Meeting Minutes. The motion carried unanimously.

Board members reviewed the June 15, 2023 Special 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. Marquez Avitia to approve the June 15, 2023 Special Board Meeting Minutes. The motion carried unanimously.

<u>STAFF UPDATES</u>

Ms. Cheng provided an update on program activities during Q2 2023. She noted that in 2023, the program is onboarding Wave 5, which comprises employers that had 5 to 15 employees in the previous calendar year. In Q2, staff finished analyzing the 2022 data from the Illinois Department of Revenue (IDOR) to determine exactly which employers are in Wave 5. She also stated that Wave 5 will be the single largest wave of employers in the program's history. Ms. Cheng added that the program has been working to get the word out through various means including direct communication from Ascensus as well as outreach to stakeholders, business organizations, payroll organizations, and also holding virtual and in-person information sessions.

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 stated that the Treasurer's Office and the Ascensus Field Team have continued to reach out to noncompliant employers to ensure they understand their next steps. She added that the program has been encouraged by a dramatic decrease in the number of noncompliant employers resulting from the enforcement process playing out and outreach efforts.

Ms. Meek then provided a legislative update. House Bill 3155 was signed by the Governor in June and is now Public Act 103-43, and the legislative team is currently drafting administrative rules to update the program's fee structure. The draft rules were submitted to the Joint Committee on Administrative Rules (JCAR) for pre-review on August 10, 2023, and once feedback is received, adjustments will be made accordingly, and first notice will be filed by the end of August. At that time, the public will have 45 days to comment on the rules followed by a hearing likely in November. Ms. Meeks stated that the legislative team hopes to have the rules approved by the end of the calendar year.

Ms. Cheng then reviewed the year-to-date expenditures for the program, sharing that expenses are generally in line with projections, and stated that an update of final FY2023 expenditures will be provided at the next meeting.

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

Troy Montigney of Ascensus started by sharing the Wave 5 early response data. He highlighted that Wave 5 employer registrations have doubled in response to the 100-day emails and letters with over 3,700 registered employers. Additionally, over 61% of registered Wave 5 employers have uploaded employee rosters and over 16,700 employers were automatically exempted when Ascensus processed the changes stemming from the Treasurer's Office's analysis of the 2022 IDOR annual file (namely businesses that fell below five Illinois employees as well as data on qualified plan sponsors from Form 5500 filings). He added that in total, the Wave 5 response rate is near 38%.

Mr. Montigney then provided an employer enforcement update. Since pre-enforcement outreach began in November of 2022, the number of noncompliant employers has decreased by over 87%, including 272 new employers submitting payroll. There have been $1.7M of total contributions and 4,622 eligible employees affiliated with these employers. He added that of the 1,158 employers referred to IDOR in 2023, nearly 80% are now considered compliant. Mr. Montigney stated that there are 239 noncompliant employers remaining from the enforcement pool, and that the Treasurer's Office and the Ascensus Field Team will continue outreach efforts to help these employers come into compliance and avoid a penalty.

Mr. Montigney then discussed employer and employee trends. He noted that in Q2, the average number of employers submitting contributions each week was 1,933, an increase of 5% quarter over quarter and a 55% increase year over year. During the week of July 30, 2023, this metric reached a new business-as-usual record of 2,080 employers. Similarly, the number of employers adding employees each week has increased significantly over the last year with an average of 505 employers in Q2 representing a 57% year-over-year increase. This metric also reached a new record of 827 employers for the week of July 30, 2023, amidst initial Wave 5 onboarding.

Mr. Montigney then presented the Saver Data Summary, stating that the total assets as of July 31, 2023, were greater than $133M and the average funded account balance is now over $1,000. Additionally, the 30-day contribution total exceeded $4.7M as of Q2. He then added that program assets and average account balance continue to rise due to both market performance and the influx of new savers. Mr. Montigney noted that the influx of new savers, who typically come in at the default 5% deferral rate, does have an adverse impact on the average deferral rate metric. He also noted a change in the "multiple-employer accounts" metric due to a change in definition from anyone who had been uploaded by multiple employers, even if they had never had a funded account, to the number of savers with funded accounts who have been uploaded by multiple employers.

In addition, Mr. Montigney presented 2023 year-to-date Client Services metrics for both employers and savers, including service level (85.94%), abandon rate (0.51%), average speed to answer (0:19), and average talk time (5:48). He noted there were year-over-year increases in call volume each month of Q2 ranging from 22% to 53%. Mr. Montigney then reviewed upcoming events that will increase call volumes including the Wave 5 deadline of November 1, 2023, program change communications alerting savers to a new fee structure in early 2024, and enforcement activity in February to April of 2024.

Mr. Montigney also provided a marketing update and reviewed the schedule of Wave 5 communications stating that there was a slight change from 80-day, 60-day, and 45-day letters to become 70-day, 55-day, and 40-day letters. This adjustment was due to the change to the Salesforce Marketing Cloud platform as well as a 100-day correction letter that was sent after half of the Wave 5 population received a letter with an incorrect deadline date (the Wave 4 deadline). Mr. Bashir asked how an employer exemption for having a qualified plan is verified. Mr. Montigney stated that across the industry there is not a systematic way to verify a qualified plan but instead, exemptions are issued on the honor system, but he also noted that one backstop is Form 5500 data from the US Department of Labor. He added that in the future it may be appropriate to do spot-checking for proof of qualified plans, but at this time many of the exemptions are processed after direct conversations with employers or research on company websites, and those employers who exempt themselves online attest to the fact that the company offers a plan. Ms. Pai asked for the definition of assumed compliance, and Mr. Montigney explained that the phrase refers to employers who have uploaded employee rosters, but do not have any employees eligible to make contributions. Therefore, they are compliant at this point in time, but not in the traditional sense of either being exempt or having facilitated payroll deductions. He then provided additional marketing updates including the development of a trifold brochure created by the Treasurer's Office with input from Ascensus, program change communications related to the upcoming fee change, as well as the transition to Salesforce Marking Cloud.

Jaimee Niles of Ascensus then provided a quarterly overview and summary of Field Team activities. She shared a recap of Q2 activities, which included 328 employer meetings and two outreach events, totaling 330 activities. Additionally, the Field Team conducted email outreach to 425 newly-registered employers as well as outreach to over 300 noncompliant employers. Through outreach and one-on-one support, the Field Team's efforts resulted in 291 employers submitting contributions, 411 employers adding employee rosters, and 129 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). There are now recorded versions of all four of these webinars in addition to the live webinar offerings. Through the Webinar Support Program, 75 individuals attended a webinar in Q2. A total of 171 employers have registered for a webinar this year to date and 122 employers have started contributions. She then shared more on the two outreach events from the past quarter and shared a testimonial from a CPA who assists employers with Illinois Secure Choice. Ms. Niles then highlighted the goals and focus of Q3 2023 which include onboarding Wave 5 employers, non-compliance outreach, increasing Illinois Secure Choice program awareness, and providing additional resources to employers.

Ms. Cheng added that there are many outreach events happening in Q3 and thanked the Board for their efforts in providing additional organizations and avenues for outreach. She then stated the Treasurer's Office recently partnered with AARP on an opportunity with Crain's Chicago Business wherein an eight-page insert will be included with the print copy of Crain's on September 11, 2023. The insert will focus on retirement security and Illinois Secure Choice and also features the perspectives of a facilitating employer and three savers.

David Smith of Marquette Associates then provided a review of the market environment in Q2, noting that 2023 has been a great year for equity markets and fixed income. There has been a significant rebound in equities, and fixed-income yields are back to higher levels. Driving capital markets are expectations for short-term rates. There have now been eleven rate hikes bringing the short-term rate to 5.25-5.50%, and mortgage rates are also the highest they have been in several decades which has helped to curb inflation.

He then discussed that the trading markets believe there will be a pause in rate hikes and ultimately a reduction in rates signaling an economic slowdown. Mr. Smith added that low unemployment, a healthy economy, and wage expansion have helped offset the inflationary pressures and higher interest rates that usually lead to a market downturn or at least slower growth.

In terms of the assets underpinning the Illinois Secure Choice portfolios, money market funds are now offering returns closer to 5%. The fixed income portfolio returns year to date are positive again at 2.1%, and we should continue to see higher returns. US equities have rebounded significantly largely driven by a rebound in the tech sector. Mr. Smith then noted the "magnificent seven" stocks have returned almost 60% while the rest of the S&P 500 has returned closer to 7% or 8%. While the index has done remarkably well this year, much of that return has been driven by the magnificent seven. It's important to note that the performance of these stocks can revert as quickly as they have accelerated which could result in less than attractive returns from the S&P 500.

Mr. Smith then discussed global equity performance, noting that those equities have performed well. There is more sector diversification in non-U.S. markets which helps mitigate volatility.

Ms. Hillegass reviewed Q2 fund performance stating that the portfolio ended the quarter with approximately $128M in assets driven by $9M of net contributions and $5.5M in investment gains. For the underlying fund options, they were all positive except for the Conservative Fund. The Growth Fund saw the highest return for the quarter. The Target Date Fund options, which account for about 95% of total plan assets, saw returns ranging from 1.6% to 5.7% for the quarter with early-stage retirement savers seeing the biggest growth as they have the highest equity allocations. For the Capital Preservation Fund and the 90-Day Hold Option, which account for about 1% of plan assets, quarterly performance was slightly positive and up over 1%. She added that the Treasurer's Office is working with Ascensus to finalize implementation of the new money market fund changes that were approved at the last Board meeting and will hopefully have a finalized implementation date at the November Board Meeting.

BOARD ENRICHMENT – FIDUCIARY TRAINING

Andrea Feirstein from AKF Consulting Group provided a fiduciary and governance refresher for Board members. She first reviewed investment and securities law fundamentals as well as the structure for state-run auto-IRA programs and the flow of funds. She reminded members that they are a fiduciary acting in the best interests of the participants, and as an issuer of securities they also have liability for the disclosure. Ms. Feirstein then reviewed oversight and governance fundamentals which included that Boards are fiduciaries and breaches of fiduciary duty have consequences. The Board duties are outlined in the Illinois Statute as Duty of Loyalty, Duty of Prudence, and Duty of Obedience. She added that there is not only individual liability but also collective liability. Finally, Ms. Feirstein concluded by reviewing ways to mitigate risk including understanding fiduciary duty, implementing thorough and disciplined decision-making processes, obtaining expert advice, participating in continuing education, and establishing good governance.

PUBLIC COMMENT

There was no public comment.

OLD AND NEW BUSINESS

Mr. Diaz noted that the Q4 Board Meeting is scheduled for Thursday, November 16 .

There was no old business.

ADJOURNMENT

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