ILLINOIS SECURE CHOICE SAVINGS BOARD

Meeting of Thursday, March 21, 2024
Held In-Person & Remotely by Videoconference

MEETING MINUTES

The March 21, 2024 meeting of the Illinois Secure Choice Board ("Board") was called to order by Mr. Diaz shortly after 2:30 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*

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)*

Arielle Singer, *Manager of Public Market Investments (In-person)*

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

Sara Meek, *Chief Legislative and Policy Officer (In-person)*

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

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

APPROVAL OF BOARD MEETING MINUTES

Board members reviewed the November 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. Pai to approve the November 16, 2023 Board Meeting Minutes. The motion carried unanimously.

STAFF UPDATES

Ms. Cheng provided an update on program activities during Q4 2023 which contained the deadline for Wave 5 employers, the largest wave in Illinois Secure Choice history. She noted that from the end of Q3 to the end of Q4, there was an increase in funded saver accounts of almost 8% and the number of registered employers increased by 70%.

Ms. Cheng then provided an update on program enforcement. In 2023, the Treasurer's Office worked in partnership with Ascensus and the Illinois Department of Revenue (IDOR) on the formal enforcement process, enactment of which resulted in a 95% decrease in the noncompliant employer population. She added that enforcement for 2024 has begun for Wave 2021 and employers remaining from the 2023 action with the Treasurer's Office sending pre-enforcement communications prior to IDOR sending out formal enforcement notices in February 2024. Additionally, early communications were sent by the Treasurer's Office to Wave 4 employers, who will be under formal enforcement in 2025, as this is a large group of employers representing a significant number of prospective savers. Ms. Cheng then shared the enforcement timeline showing communications from both the Treasurer's Office and IDOR. She stated those employers that received a Notice of Proposed Assessment in February 2024 are now within their 120-day window to take action before the penalty is assessed.

Ms. Meek then provided a legislative update stating that there is one Secure Choice initiative this year, HB4719. She stated that the initiative clarifies the types of retirement plans that qualify an employer for an exemption and also provides updated language that an employer may, rather than shall, offer an open enrollment period each year. Ms. Meek added that the bill was introduced and assigned to the House State Government Committee and is expected to be heard in committee on April 3, 2024.

Ms. Cheng then provided a federal legislative update. She stated that there are currently two bills that have been introduced, one by Senators Hickenlooper and Tillis and the other by Representative Neal, that attempt to close the access gap for workers who do not have a workplace retirement option. Additionally, she highlighted the Saver's Match that is part of the SECURE 2.0 legislation through which eligible individuals can receive a match of 50 cents on the dollar on up to $2,000 of qualified retirement contributions. Currently, the legislation states that the match cannot be deposited into a Roth IRA, which is problematic for Illinois Secure Choice participants, the vast majority of whom save through a Roth IRA, as is the case with all other active auto-IRA programs across the country. The states with similar programs have collectively brought this issue to the attention of Congressional staffers and are also working with the recordkeepers to find a way to ensure that Roth IRA holders do not miss out on the Saver's Match when it becomes active in tax year 2027. Ms. Cheng added that she will keep the Board updated on any developments.

Ms. Cheng then reviewed the year-to-date FY24 expenditures for the program, sharing that there is no real variance between this year and last year.

DISCUSSION – SECURE CHOICE QUARTERLY REPORT

Troy Montigney of Ascensus started by sharing a few recent milestones including the onboarding of Wave 5 employers and the onset of the second annual employer enforcement window, implementation of the updated program fee structure, completion of the capital preservation funds conversion, and execution of the third annual auto-escalation run. Additionally, he highlighted that within the last week, Ascensus's two state-facilitated retirement program partners, Illinois Secure Choice and CalSavers, reached a combined $1B in assets under management. Mr. Montigney added that Ascensus is exploring product solutions to make the Saver's Match as easy as possible in addition to engaging with industry and federal decision makers on the topic.

He then reviewed employer response data. He highlighted that employee rosters have been uploaded by over 87% of Wave 5 registered employers, and as of March 14, 2024, the Wave 5 employer response rate was 73.3%. Mr. Montigney add that there are approximately 3,700 registered employers with eligible employees or employees within their 30-day decision period.

Mr. Montigney then provided an employer enforcement update stating that the 2024 enforcement process began on February 8, 2024, with 318 employers from either Wave 2021 or as holdovers from the 2023 enforcement action. He highlighted the success of the 2023 enforcement action noting a compliance rate of almost 96%, with 227 employers submitting payroll contributions. Since pre-enforcement outreach began in November of 2022, 376 new employers have submitted payroll with $3.2M of total contributions to date.

Mr. Montigney then discussed employer trends. He noted that in Q4, the average number of employers submitting contributions each week was 2,766, and in early 2024, exceeded 4,000 employers in a week for the first time. The average number of employers adding employees each week was 1,485 which naturally slows down following a wave deadline. However, he noted that there is an effort to get employers who have been in the program longer to continually update their rosters. The first email communication regarding roster maintenance responsibilities was sent on March 20, 2024, to over 2,000 employers.

Mr. Montigney then presented the Saver Data Summary, stating that program assets were at nearly $159M as of January 31, 2024, and now exceed $170M. Additionally, 30-day contribution activity exceeded $5M throughout Q4 and reached $6M in Q1 2024, and due to the third annual auto-escalation run, the average deferral rate was over 6% as of January 31, 2024. He also noted that the percentage of web-registered savers has increased from 20.9% to 22.2% following saver communications about the updated fee structure. Mr. Bashir then asked for clarification on the saver withdrawal metric and what the withdrawals represent. Mr. Montigney explained that the "total withdrawal amount" metric represents the cumulative amount of dollars taken out of the program in any withdrawal transaction and the "accounts with a withdrawal" metric represents the total number of accounts that have ever had a withdrawal. Mr. Bashir also asked if there is data on the number of participants who withdraw from the program completely as well as if Ascensus conducts follow up with those individuals. Mr. Montigney stated he would have to report back on that number as it requires looking at several reports and that at this time, follow up does not occur with those individuals; however, there is an effort to enhance messaging at the time of withdrawal to provide more education.

In addition, Mr. Montigney presented 2023 Client Services metrics for both employers and savers stating that there were 75,683 calls, a 67% year-over-year increase. Additionally, the abandon rate was 2.83%, average speed to answer was 1:11, and the callback feature resulted in 14,253 callbacks with an average callback time of 13:23. He also reviewed the multilingual trends with Spanish-language calls representing the vast majority of calls engaging the interpretation vendor. Mr. Montigney then discussed the drivers of call volume in 2024 including the new fee structure that took effect in January, enforcement activities, and the new annual wave deadline.

Carrie Bickerstaff of Ascensus provided a 2023 marketing review including Wave 5 outreach, updated fee structure communications, web updates, monitoring website and video engagement, and the completion of the email transition to Salesforce Marketing Cloud. She also reviewed the communications plan for 2024 including Wave 2024 communications, continuing to build and test emails in Salesforce Marketing Cloud, ongoing web updates, and refreshing content for quarterly statement messages. Ms. Bickerstaff also provided a 2024 proposed calendar of communications for both employers and savers as well as the schedule for Wave 2024 employer communications beginning on July 24.

Jaimee Niles of Ascensus then provided a quarterly overview and summary of Field Team activities. She shared a recap of Q4 activities, which included 74 employer meetings. Q4 saw the highest level of outcomes for the year in employers submitting contributions, adding employee rosters, and exempting. Across 2023, Field Team one-on-one meetings and events resulted in 3,697 employers submitting contributions, 14,042 employers adding employee rosters, and 1,641 employers exempting. 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, 420 individuals registered for a webinar in Q4, and a total of 1,063 individuals registered for a webinar in 2023. She then shared that there were 7 outreach events held in Q4. She also highlighted a testimonial from a participating employer. Ms. Niles then discussed the goals and focus for Q1 2024, which include creating content for the website video library, noncompliance outreach, enforcement support, and identifying additional employers and savers to provide testimonials.

Ms. Hillegass reviewed Q4 fund performance stating that Q4 ended on a positive note with the main driver in November and December being the Federal Reserve Chair forecasting three interest rate cuts for a total of 75 basis points in 2024. The S&P 500 was the best performing major equity index with 11.7% returns for the quarter. Real estate and small caps bounced back in the fourth quarter with positive performance. She shared that Chinese equity markets proved to be the biggest drag for the international equity allocations in the portfolio's target date funds, as Moody's gave a negative outlook for the country. However, European developed equity markets ended the year strong. Specific to Illinois Secure Choice, Q4 started with approximately $131M in assets. Across the fourth quarter, there were approximately $10M in contributions and $14M in investment gains, and thus Q4 ended with $155.5M in program assets, which is up almost 60% from the start of 2023. For the underlying fund options, they all had positive performance in Q4. The Growth Fund (about 3.4% of program assets) was the top performer of the fourth quarter and was also up over 25% for the year. The Conservative Fund was up 6.42% for the quarter and 4.68% for the year. The Target Date Fund options, which account for about 95% of total plan assets, saw returns ranging from 8.28% to 11.39% for the quarter and for the year, from about 11% to 21%. For the Capital Preservation Fund and the 90-Day Hold Option, which account for about 1.5% of plan assets, quarterly performance was positive and year-to-date performance was similar to the Conservative Fund option. Ms. Hillegass added that interest rates did not change over the quarter but yields did decrease.

ACTION ITEM – APPROVAL FOR TREASURER'S OFFICE TO AMEND ADMINISTRATIVE CONSULTANT AGREEMENT

Board Members were provided, in advance, the background and explanation regarding the need to amend the administrative consultant agreement with AKF Consulting Group. There was no discussion and no additional changes were proposed.

A motion was made by Mr. Orozco, seconded by Mr. Bashir to approve the Treasurer's Office amending the administrative consultant agreement. The motion carried unanimously.

BOARD ENRICHMENT – MARKET OVERVIEW AND OUTLOOK

David Smith of Marquette Associates provided a 2024 market outlook, noting that the benefit of the structure of the Illinois Secure Choice portfolios is that they perform predictably according to what is happening in the market. He added that 2023 was one of the best environments for a Target Date Fund. In early 2023, the rise in interest rates caused distress in regional banks; however, it appears that most of the strains and stresses have been avoided and we can hopefully navigate a soft landing in 2024, which is to say a rise in interest rates without encountering a recession.

Mr. Smith then stated the Federal Reserve's preferred measure of inflation, Personal Consumption Expenditure (PCE), has decreased considerably and is nearing the target level of 2%; however, the decrease has slowed and may be part of the reason the interest rates cuts have not occurred as early as anticipated. The ten rate hikes that occurred in 2022 and 2023 (from 0 to 5.5%) were helpful in slowing the economy and inflation. He pointed out that the average time between the last rate hike and the first rate reduction is typically seven months which means rate reductions could be coming soon. Additionally, the Federal Reserve has indicated that there will be three rate reductions totaling 75 basis points. The reason we have not seen signs of distress is because the economy is strong with 26 consecutive months of unemployment rates less than 4%.

Mr. Smith added that fixed income matters in this environment with indices finishing the year with a flourish. The one-year return was positive across the board. Core bond, bank loans, and emerging market debt yields are attractive compared to long-term averages which is beneficial to later-stage participants. He added that with expectations of rate cuts in 2024. there should be positive performance from fixed income.

Mr. Smith then discussed U.S. equity performance where all indices had positive returns in December. There is a huge concentration of market capitalization in technology and communication services which represents nearly 30% of the index. The Magnificent Seven also represents almost 30% of the index. The Magnificent Seven dominated headlines in the first half of 2023 but relative performance of this group was subdued to close the year. He added that rate cuts are typically a positive development for equities as well.

Global equities also performed well although not as well as U.S. equities. China was the only major country to have negative performance in both the fourth quarter and in calendar year 2023. Inflation has slowed across both developed and emerging countries, and most major economies are expected to hold interest rates constant or implement rate cuts in the year ahead.

PUBLIC COMMENT

There was no public comment.

OLD AND NEW BUSINESS

Ms. Tremble noted that Board members should be receiving letters from the Secretary of State for the Statement of Economic Interest filings, which are ae due on May 1, 2024.

Mr. Diaz stated that the next Board meeting will be held on May 16, 2024.

There was no old business.

ADJOURNMENT

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