ILLINOIS SECURE CHOICE SAVINGS BOARD

Meeting of Thursday, August 15, 2024
Held In-Person & Remotely by Videoconference

MEETING MINUTES

The August 15, 2024 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*

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

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

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

Lotika Pai, *Board Member*

TREASURER'S OFFICE STAFF

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

Sarah Hillegass, *Deputy Chief Investment Officer, Public Market (In-person)*

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

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

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

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

Yolonda Williams, *Deputy Director of Legislative Affairs*

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 May 16, 2024 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 Mr. Orozco to approve the May 16, 2024 Board Meeting Minutes. The motion carried unanimously.

STAFF UPDATES

Ms. Cheng provided Q2 2024 program updates which included several different areas of activity including continued engagement with employers in Wave 5. She noted that total assets increased by 9% over the quarter and the number of funded saver accounts increased by 3.7%. Ms. Cheng added that during the past quarter, staff determined which employers will be part of Wave 2024 based on 2023 data provided by the Illinois Department of Revenue (IDOR). Staff worked with Ascensus to set the communication schedule for those employers ahead of their November 1, 2024 deadline. For the first time, the Treasurer's Office will send direct communications to annual wave employers prior to their deadline.

Ms. Cheng then provided an update on program enforcement. In 2024, IDOR began the formal enforcement process in February for the first batch of employers and in June for the second batch of employers. To date, the number of noncompliant employers newly in enforcement for 2024 has decreased by 86%. She added that the Treasurer's Office has also started conducting pre-enforcement outreach to employers from Waves 4 and 5.

Ms. Cheng then noted that the Treasurer's Office is involved in working groups regarding the Saver's Match that will take effect in tax year 2027. These groups met in Q2 to discuss ways to ensure that participants in auto-IRA programs such as Illinois Secure Choice do not miss the opportunity to receive the Saver's Match. She also provided an update that Illinois Secure Choice intends to respond to a request for information from the State of Rhode Island regarding a potential interstate partnership on an auto-IRA program.

Ms. Meek then provided a legislative update on this year's Secure Choice initiative that specified the types of qualified retirement plans that qualify employers for an exemption and allowed open enrollment periods rather than requiring them. She stated that the bill passed the General Assembly, and that the Governor signed the bill on July 19, 2024. It is now Public Act 103-681, and it will take effect on January 1, 2025. She added that the Treasurer's Office legislative team is currently drafting rules that clarify the process for employers registering employees as participants.

Ms. Cheng then reviewed FY24 year-to-date 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 updates on upcoming product and platform work. The primary focus of this work is broadening the connectivity between employers, Illinois Secure Choice, and payroll providers. Ascensus is developing a partnership with a third-party payroll aggregator, Payroll Integrations, that will help employers fully integrate with Intuit QuickBooks as well as a number of other payroll providers. The intent is to have the new Payroll Integrations experience available for Intuit QuickBooks users by the end of the year, with additional payroll providers being added in 2025 and prioritized based on the volume of employers utilizing each provider.

Mr. Montigney added that additional product work will be centered around implementation of the Saver's Match. The current legislation does not allow for the Saver's Match to be deposited into a Roth IRA, which is the savings vehicle that the overwhelming majority of Secure Choice savers utilize. Therefore, Ascensus is thinking through how it can disclose to program participants the differences between a Roth IRA and a Traditional IRA and ensuring that there is an expeditious way for savers to open a Traditional IRA in order to accept Saver's Match contributions. Additionally, Ascensus will work on ensuring connectivity with the Department of Treasury.

Mr. Montigney then provided an enforcement update. For 2024, there were 339 employers placed into formal enforcement, and between 2023 and 2024, a total of 1,497 employers placed into formal enforcement. Enforcement and pre-enforcement outreach from both 2023 and 2024 have resulted in 444 employers newly submitting payroll with $4.6M in payroll contributions. He highlighted that over 90% of employers referred to IDOR have become compliant

Mr. Montigney then reviewed employer response data. He noted that activity has leveled off following the Wave 5 deadline of November 1, 2023. An average of 732 employers added employees weekly in Q2 which represents a 45% year-over-year increase. An average of 4,149 employers submitted payroll weekly throughout Q2 which represents a 114% year-over-year increase and a 9% quarter-over-quarter increase. In April of 2024 there was a new business-as-usual weekly high of 4,240 employers submitting payroll.

Mr. Montigney then presented the Saver Data Summary, stating that at the end of July, total program assets were nearing $200M. He added that the 30-day contribution activity remained about $6M through most of Q2 and the average deferral rate was down a bit at 6.06% as new participants enter the program at the default contribution rate of 5%.

In addition, Mr. Montigney presented Q2 Client Services metrics for both employers and savers stating that call volume was down in Q2 with 14,097 calls, but it was still a 23% year-over-year increase. He noted that Client Services hit the two critical Service Level Agreement metrics in Q2 with an average speed to answer of 48 seconds and an abandon rate of 1.92%. Additionally, the average call back time was 4:11. Mr. Montigney then discussed call trends stating that the majority of calls from employers were for general portal assistance and the majority of saver calls were participation inquiries such as opt-outs and deferral rates. Finally, he reported that participant satisfaction exceeded the benchmark of 85% for all of Q2.

Mr. Montigney also provided a marketing update for 2024 reporting that the roster maintenance email sent in Q1 was viewed as a success, and that there are plans to repeat this email campaign before creating it as a regular systematic communication. Ms. Cheng added that a roster maintenance paper letter sent from the Treasurer's Office to a different set of employers had a surprisingly strong response rate. Mr. Montigney went on to state that Wave 2024 communications are on track, and both the 100-day letter and email and the 80-day email were sent as scheduled. Additionally, the 60-day and 45-day email campaigns will be divided and sent by both the Treasurer's Office and Ascensus for A-B testing on which sender generates a greater response. Mr. Orozco asked if the letters were going to the latest addresses provided to the Illinois Department of Revenue. Mr. Montigney explained that if an employer has not registered, then yes, the latest address provided to IDOR is utilized. However, if an employer registers and confirms or updates an address, then that contact information is utilized. Ms. Cheng added that the paper letters sent by the Treasurer's Office around the 100-day mark were to those employers who had recently updated to their address with IDOR.

Mr. Montigney then provided a quarterly overview and summary of Field Team activities. He shared a recap of Q2 activities, which included 50 employer meetings that were primarily focused on assisting employers as they move through the onboarding process. Additionally, the Field Team provided outreach and support to 169 employers who had lapses in remitting payroll contributions and helping them remain in compliance. Mr. Montigney then provided metrics for the Webinar Support Program, which comprises four offerings (an employer overview, two employer how-to sessions, and a saver webinar). He noted that webinar attendance has slowed down with 21 employers and 14 savers registering for a webinar in Q2. The recorded employer overview webinar was accessed 58 times, and the recorded saver webinar was accessed 84 times. 97 employers have submitted contributions after attending a webinar. Mr. Montigney highlighted a testimonial from a participating employer and then discussed Field Team goals and focus for Q3 2024, which include hiring a new Institutional Relationship Manager for Illinois, continuing efforts with noncompliant employers, and identifying additional employers and savers to provide testimonials. Ms. Cheng also provided an update that there is room in the FY25 budget for an additional full-time position on the Secure Choice team, a position for which the Treasurer's Office is actively hiring.

Catherine Hillier of Marquette Associates then provided a review of the market environment in Q2. She noted that year to date, within the U.S. equity market, large cap growth equities continue to outperform small cap equities with growth outperforming value. In the international market, developed markets are outperforming emerging markets. Inflation slowed to its lowest rate in more than three years in July, which supports the narrative of an interest rate cut coming in September. In early August, a report showed the unemployment rate increasing to 4.3%, causing the market to start to price in a larger rate cut in September and a greater number of rate cuts by the end of the year. While the unemployment rate increased, a recent report showed jobless claims coming in lower than expected, adding to the mixed picture the data is painting.

Fixed income was broadly positive in Q2. The U.S. Aggregate Index year to date was negative at the end of Q2; however, it has already moved into positive territory at the end of July. Ms. Hillier added that election years tend to be positive for equities. In 2024, the S&P 500 posted its best return in the first half of an election year since 1980 and it is unlikely that returns will remain as high in the second half of the year. Mr. Bashir then asked what factors lead to a positive market during an election year. Ms. Hillier stated that in the second half of the year, after the election, there is typically a rebound as there is more clarity around the policy outlook going forward.

Ms. Hillegass then reviewed Q2 program performance stating that Q2 started off with about $176M in assets. Across the quarter there were almost $13M in net contributions with $3M in investment gains, thus Q2 ended with about $192M in program assets. That total represents growth in program assets of approximately 9% over the quarter and over 50% year over year. All of the underlying fund options had positive performance in Q2. The Conservative Fund was up 0.1% for the quarter (representing 0.35% of program assets). The Growth Fund (about 3.7% of program assets) was the top performer for the quarter and was up about 4% for the quarter and over 24% for the trailing one-year period. The Target Date Fund options, which account for about 95% of total plan assets, saw returns ranging from about 0.9% to a little over 2% for the quarter. She added that the performance was more muted due to the Fed signaling more caution on interest rate cuts earlier in the quarter, and the Target Date Funds, which generally have a longer fixed income duration positioning, were affected by fixed income being down. US equities were the strongest contributors to performance generating about 2% of returns for the quarter, and international equities generated about 1%. For the Capital Preservation and 90-Day Hold Options, which account for about 1% of plan assets, quarterly performance was a little over 1%. The trailing one-year period for these funds was between 4.83% and 4.99% which is outperforming the Conservative Fund at 2%.

PRESENTATION – DEFINED CONTRIBUTION PLAN SPONSOR SURVEY REPORT, MFS

Jeri Savage of MFS provided an overview of the survey MFS conducted. The survey looked at 141 plan sponsors representing over $81B in plan assets and nearly 750,000 participants and focused on retirement readiness, investment reassessment, and 2024 employer concerns.

The survey found that the changing regulatory and legislative landscape, litigation risk, and overall plan administration burdens are the top three areas of concern for plan sponsors, though small, mid-size, and large plans have slightly different top concerns.

Regarding retirement readiness, the majority of plan sponsors do not feel confident that their participants will be able to retire at their desired age and feel participants have competing priorities that impact their ability to save for retirement. For investment reassessment, nearly half of sponsors have made or are contemplating changes to fixed income and equity investments. She specifically noted that sponsors are more interested in adding to the fixed income investment menu and replacing or reducing managers for the equity investment options. Ms. Savage added that Target Date Funds are still the dominant Qualified Default Investment Alternative (QDIA) though participant misconceptions persist. She then noted that plan sponsors' top three areas of focus include reviewing SECURE 2.0 and adopting appropriate provisions, evaluating the investment lineup holistically, and focusing on operational issues. She concluded her presentation by saying that from this survey data, MFS found three opportunities for defined contribution plan sponsors which include engagement opportunities, investment opportunities, and innovation opportunities. Mr. Diaz then asked if Ms. Savage thought with more state-facilitated retirement programs launching, that states will continue to customize and innovate and offer more options to participants. Ms. Savage stated that this could be the case but that it might be driven more by the growing number of participants and assets in the program rather than additional states launching state-facilitated retirement programs. Ms. Cheng then asked if there was anything Ms. Savage found to be surprising in the survey data. Ms. Savage stated that she was most surprised that plan sponsors were less confident about participants' ability to retire at their desired age than even participants themselves.

PUBLIC COMMENT

There was no public comment.

OLD AND NEW BUSINESS

Mr. Diaz stated that the next Board meeting will be held on November 14, 2024.

There was no old business.

ADJOURNMENT

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