ILLINOIS SECURE CHOICE SAVINGS BOARD

Meeting of Thursday, November 17, 2022
Held In-Person & Remotely by Videoconference

MEETING MINUTES

The November 17, 2022 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*

Roderick Bashir, *Board Member*

Lotika Pai, *Board Member*

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)*

Sara Meek, *Director of Legislative Affairs*

Yolonda Williams, *Deputy Director of Legislative Affairs*

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

Cliff Peng, *Deputy Director of Secure Choice (In-person)*

APPROVAL OF BOARD MEETING MINUTES

Board members reviewed the August 18, 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 August 18, 2022 Board Meeting Minutes. The motion carried.

STAFF UPDATES

Ms. Cheng provided an update on program activities during Q3 2022. She noted that the quarter was a very busy one with the Wave 4 employer registration deadline passing on November 1. She also shared a timeline showing compliance outreach and enforcement activities, including notices of proposed assessment scheduled to be issued by the Illinois Department of Revenue in February 2023 as well as notices sent by the Treasurer's Office in November and December to employers in the enforcement pool.

Ms. Cheng also provided an update on several legislative changes the Treasurer's Office will be pursuing. Ms. Cheng shared that some of the changes are to provide further clarity, for instance, noting that the Program Act applies to non-governmental entities only and modifying the language that explains how the Board interacts with the Treasurer's Office to secure staff for the program. Additionally, she explained that the Treasurer's Office is also seeking greater flexibility in the program's fee structure, which is currently an exclusively asset-based model, while the industry at large has shifted to a hybrid fee structure with a mix of dollar-based and asset-based fees. The rationale for proposing a shift to a hybrid structure is twofold: 1) for the sake of savers in the program, for whom a hybrid fee structure will result in proportionally lower fees as account balances grow, and 2) for the viability of servicing the program from the perspective of the private-sector program administrator. Ms. Cheng noted that every other state-facilitated retirement savings program similar to Illinois Secure Choice uses or is moving to a hybrid fee structure. Mr. Diaz noted that at the 2023 Q1 Board meeting, program consultant AKF Consulting Group will present on models used by other similar programs. Mr. Orozco noted the importance of having enough flexibility to ensure program sustainability and devising a fee structure that takes all stakeholders into account. Mr. Diaz noted that members will be updated as the Treasurer's Office moves through the legislative process.

Ms. Cheng then provided the Board with an update on FY2023 year-to-date expenditures covering the period of July 1, 2022, through October 31, 2022, details of which were shared with Board members prior to the meeting. She noted that expenditures were fairly consistent with the prior year.

Ms. Cheng also highlighted that AKF Consulting Group will provide a landscape update on the state-facilitated retirement program industry at the 2023 Q1 Board meeting.

DISCUSSION – SECURE CHOICE QUARTERLY REPORT

Troy Montigney of Ascensus started his presentation by sharing updates on product and technology upgrades that have been made in service of the program's expansion. Mr. Montigney noted that data on employer activity is showing that the redesigned employer portal is improving the speed with which employers are moving through steps of the onboarding process. He then provided an update on payroll provider integration, pointing out that since the full integration with Intuit launched in May, the number of employers connected through a full payroll provider integration has grown from five to over 100 (across integrations with both Intuit and Paychex). Mr. Montigney then discussed that Ascensus will be generating additional automated email reminders to be delivered to employers that still have steps to complete in the onboarding process (i.e., adding employee roster or remitting payroll contributions).

Mr. Montigney then pivoted to providing an update on employer response activity related to Wave 4, highlighting that since the end of Q2, employer registrations have increased by 38%, the number of employers adding employees for the first time increased by 36%, and the number of employers submitting contributions increased by 11%. He also noted a significant increase in the number of exempted employers, with drivers being the Wave 4 deadline, annual updates related to refreshed data received from the Illinois Department of Revenue, and research and outreach conducted by the Treasurer's Office.

Mr. Montigney then provided a look at employer status by wave, noting that the share of non-responsive employers will decrease over time and that Wave 5 is projected to include more than 60% of all eligible employers. Mr. Montigney also shared information about the response rate of each wave at their applicable deadline, highlighting that the 59.3% response rate for Wave 4 is significantly higher that the rates for previous waves.

Mr. Montigney noted that compliance action taken by employers in the earliest waves (Waves 1, 2, 3, and 2020) in the near term will be driven by Treasurer's Office-issued compliance communications, outreach from the Ascensus field team, and notices issued by the Illinois Department of Revenue.

Mr. Montigney then discussed employer and employee trends. He noted that the number of employers submitting contributions each week has increased drastically, with nearly 1,400 employers in the most recent week, setting a record for a business-as-usual week not skewed by a holiday. Additionally, the number of employers adding employees each week has increased significantly in the last quarter. During the week of October 23, 2022, this measure reached its highest level at 624 employers.

Mr. Montigney then presented the Saver Data Summary, noting that program assets have remained above $90 million for several months. He shared that effective opt-out rate will increase in the near term as it typically does around wave deadlines and then it will likely level off for a period in advance of Wave 5 activity beginning in earnest.

In addition, Mr. Montigney presented 2022 year-to-date Client Services metrics for both employers and savers, including service level (93.10%), abandon rate (0.62%), average speed to answer (0:14), and average talk time (6:22). He noted that through the end of October 2022, total call volume for the year to date is up by 24% year over year and for October alone, the 2022 total is up 70% year over year. Mr. Montigney highlighted that the Client Services team was able to maintain high service levels due to increased staffing, even as volume increased substantially from 2021 to 2022. He noted that the Client Services team has achieved service level agreements for 21 consecutive months. He highlighted that Client Services representatives have received additional training and that the onboarding team has changed its scope to become cross-trained in various areas, including payroll provider support and escalation support. Mr. Montigney also noted that there are representatives dedicated to the enforcement phone line (on which there have already been 100 calls since the Treasurer's Office started issuing notices to noncompliant employers).

Mr. Montigney then provided a quarterly review of marketing services, including a recap of Wave 4 early-notice campaign activity, which included emails issued 80 days, 60 days, and 45 days before the Wave 4 deadline of November 1, 2022, emails which were added as new touchpoints compared with previous onboarding waves, which included a 120-day or 90-day early notification and then a 30-day notice. The additional touchpoints were added to drive early employer response. The open rates for the three emails averaged around 40% with click-through rates of 5.8%-6.6%, rates which are more in line with those seen with 529 college savings programs that Ascensus administers, which is notable given that 529 programs are opt-in programs versus a mandatory program like Illinois Secure Choice. Looking ahead to activities for Q4, Mr. Montigney shared that key priorities would be budget planning for 2023, making website and collateral updates, beginning the transition of all program emails to Salesforce Marketing Cloud, and the upcoming communication to savers and employers regarding the automatic escalation of contribution rates on January 1. In response to a question raised by Mr. Bashir regarding which savers are eligible for auto-escalation and in what increments, Mr. Montigney shared that a saver is eligible if they have not turned off the auto-escalation feature and if their account has been funded for a certain minimum length of time and that the annual increase is in 1% increments until the saver's contribution rate reaches 10%.

Jaimee Niles of Ascensus then provided a quarterly overview and summary of field team activities. She shared a recap of Q3 activities, which included 87 employer meetings, 4 employee meetings, and 7 outreach activities, totaling 98 activities. Through the Webinar Support Program and one-on-one support, the field team reached over 1,000 employers, resulting in 114 employers submitting contributions and 162 employers adding employee rosters. Through the field team's outreach to noncompliant employers, 193 employers have submitted contributions, 550 employers have added employee rosters, and 11 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, 187 individuals attended a webinar, with 76% of employers making onboarding progress after attending a session. In response to a question from Mr. Diaz about topics that come up most frequently, Ms. Niles shared that questions from employers have ranged widely (for instance, questions about payroll providers and how to submit contributions) and that for employers and savers, education is an important aspect. Ms. Niles then provided an update on strategic partnerships and outreach events, which in the previous quarter included several chamber events, webinars with Small Business Majority, and library presentations. Ms. Niles also shared a testimonial from a facilitating employer who expressed his appreciation for the State giving small businesses an important tool that encourages employees to start thinking about retirement. Ms. Niles then reviewed priorities for Q4, which include continued outreach to noncompliant employers, continuing to work with partners to increase awareness of the program, identifying best practices and new solutions based on needs emerging from employers and employees, and driving more traffic to the Webinar Support Program.

David Smith of Marquette Associates then provided a review of the market environment for Q3, noting the volatility in equity markets and that 2022 to date has been a challenging year for both equity and fixed income due to rising inflation levels and the Federal Reserve's actions to bring those levels down through interest rate increases. He noted that one major challenge in trying to lower inflation is the strength of the labor market. Unemployment is at a historic low, making it harder to suppress demand-side inflation and excessive spending. Related to the path of interest rates, Mr. Smith noted the five rate hikes since March 2022, with the four most recent increases equaling 75 basis points each. As interest rates have increased, bond and equity prices have come down. Mr. Smith noted that we are on track to see a second consecutive year of negative calendar-year returns from bonds and the single worst performance from investment-grade fixed income as measured by the Bloomberg Aggregate Bond Index since the inception of the Index. He did note that bonds now have a much higher yield, and that more bonds are being added to the fixed income index. He shared that the outlook on bonds is the highest it has been in 15 years.

Mr. Smith shared that US equity performance has been down in 2022 to date across all sub-asset classes. With a rally in October and some recovery at the start of November, returns are down approximately 16% year to date. He did note that we should keep in mind that in 5 of the last 6 calendar years, we have seen equity market returns that have surpassed long-term expectation, therefore, it is not unexpected to see a pull-back as interest rates have increased. Across the S&P 500, all sectors except energy have had negative performance in 2022. Mr. Smith also shared that we have now returned to valuation levels that are much more attractive. Mr. Smith then discussed global equity performance, nothing that both developed and emerging market equity has not performed much better than US equity. Every sector in non-US equity portfolios has been down. Mr. Smith noted that much of the recent underperformance is attributable to China. Mr. Smith also noted that all portfolios in Illinois Secure Choice are indexed, capturing broad risk-return characteristics of each respective index and without overexposure to any one sector or any one stock. In response to a question from Mr. Bashir about what indicators we might see of a healthier market, Mr. Smith pointed to inflation levels and the path of interest rates, stating that he expects to see equity markets stabilize once we start to see a reduction in Federal Reserve rate hikes or an increase in rate cuts.

Mr. Aguilar started his presentation by providing a review of underlying fund performance, investment options, and asset breakdowns for the last quarter. He noted the anomaly of seeing positive correlation of bond and stock returns. Within the target date retirement funds in the Illinois Secure Choice portfolio, there have been negative returns in both the equity-heavy vintage year funds as well as in the vintage year funds closer to the present year because of negative fixed-income performance. Mr. Aguilar noted that it is important to have a longer-term outlook when evaluating performance given the nature of saving for retirement and especially as most saver assets are in the later vintage year funds.

Mr. Aguilar also provided an update on two other investment items. First, he shared that the Treasurer's Office is continuing to work with Ascensus and Marquette Associates to review the investment lineup, as is done annually, to look at all the investment options and that the investment team will share any findings with the Board at the next meeting. Secondly, Mr. Aguilar introduced two members of the Public Market Investments team, Sarah Hillegass, Director, and Jacob Hilliard, Deputy Director. Ms. Hillegass and Mr. Hilliard will be providing updates to the Board at future meetings. Mr. Diaz noted that the Treasurer's Office investment team works closely with Illinois Secure Choice staff as part of the Treasurer's Office's oversight and due diligence of the program and performance monitoring.

PRESENTATION – FY2022 AUDIT

Pattie Davidson and Greg Walker of Landmark CPAs presented the Board with an overview of the FY2022 audit report of the program and shared insights on specific sections of the financial statements. Mr. Walker took the Board through a review of the annual report as well as the audit communication letter. He started with a review of the independent auditor's report, which showed a clean opinion, and noted the section of the report that addresses emphasis of matter on contributions, explaining that the focus of Landmark's audit was on funds that have come from an employer to Ascensus as the recordkeeping agent, and that they do not audit anything that happens prior to that point in time, for instance, anything related to payroll processing or calculation of employee contributions. Mr. Walker then reviewed other components of the report, going into more detail on the financial highlights, pointing to a net increase of nearly $16 million for the year ending June 30, 2022, which given the $13 million net investment loss, is particularly impressive and is driven primarily by contributions of $42 million. Related to the audit communication letter, Mr. Walker pointed to the "Planned Scope and Timing of the Audit" section, noting that Landmark was delayed in issuing the report by the contractually established deadline of September 30 due to an investment confirmation that the firm did not receive timely. Mr. Walker also noted that the "Significant Risks Identified" section of the letter is required to be included due to a new standard that the firm was required to adopt. Mr. Walker assured the Board that there were no significant risks identified. He noted that Landmark tested the administrative fees in detail, recalculating the fees at a plan-wide level and confirming all fees with Ascensus and the Treasurer's Office and that they identified no issues.

BOARD ENRICHMENT – ILLINOIS SECURE CHOICE LIFEPATH® TARGET DATE FUNDS, BLACKROCK

Lisa Tyley, a member of BlackRock's relationship management team, and Stacy Tovrov, a member of BlackRock's LifePath team and Head of Investment Strategy for Retirement Solutions, provided an overview of how the LifePath target date funds work, enhancements made recently to the underlying asset classes, and future innovations to the product. Ms. Tyley noted that BlackRock pioneered the first target date fund in 1993 and that half of the firm's assets are related to retirement. Ms. Tovrov shared more about the objective of LifePath, which is to deliver consistent spending, allowing savers to maintain their lifestyle spending habits in retirement regardless of investor behavior or market moves. This objective drives how risk is set across the saver's lifetime – early in a saver's career, the goal is to maximize growth potential, mid-career, to minimize uncertainty and reduce volatility around the point of retirement, and in retirement, to address longevity. Ms. Tovrov then shared more information on inputs that drive the design of the LifePath series, including market returns and volatility, life expectancy, and income, as well as other considerations. She shared that each of the target date portfolios invests in 10 broad asset classes, with each portfolio being built individually with deliberate asset class exposures. Ms. Tovrov then discussed the research initiative the firm undertook recently to look at fixed income allocation and the role of fixed income in a target date fund. Based on the research, the firm disaggregated its fixed income exposure to allow the portfolio management team to weight sectors according to participant objectives at different ages rather than index weights. The team now has more control over allocation to various bonds through the underlying building blocks of long credit, intermediate credit, securitized, long government bonds, and intermediate government bonds.

Ms. Tyley then discussed a new target date fund product the firm has been developing, a product called LifePath Paycheck, which looks like a target date fund up until the point of retirement, at which time the participant has the option to purchase a guaranteed lifetime annuity with a portion of their LifePath balance. Ms. Tyley shared more about the mechanics of the product and shared that the product will help to offer the predictability that many savers seek. She also shared that the product will first be available in large 401(k) plans eligible to use collective trust funds and that it would likely be offered within the mutual fund structure in the years to come.

<u>PUBLIC COMMENT</u>

There was no public comment.

<u>OLD AND NEW BUSINESS</u>

Mr. Diaz noted that the 2023 Board meeting schedule had been finalized and dates shared with Board members. He also noted that meeting dates had been posted to the Secure Choice Board page on the Treasurer's Office website.

He also provided a reminder about the required annual trainings for Board members.

There was no old business.

<u>ADJOURNMENT</u>

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