IDAHO DEFERRED COMPENSATION BOARD

Minutes
March 03, 2025 - 1:00pm-3:00pm
Idaho State Controller's Office
700 West State Street, 5th floor Room 537, Boise, ID

The following board members were present in person: Ben Yrusa representing the Governor's Office, Nicole Fitzgerald representing the Secretary of State's Office, and State Controller Brandon Woolf representing the State Controller's Office. Phil Skinner representing the Attorney General's Office was absent.

Others present were Gaby Gudino from the State Controller's Office, John Lamm, Laura Leigh Brewster, John Steggell, Jared Williams and Eric Glinsky from Nationwide, Jake O'Shaughnessy from SageView and Steven Thompson from Mission Square.

The meeting was called to order by Brandon Woolf at 1:00 p.m.

1. Committee questions or additions to agenda - Action Item
Brandon Woolf asked if there was any questions or additions to the agenda. No questions or changes were requested, and he moved on to item 2 on the agenda.

2. Approval of minutes from the Meeting on December 2, 2024 - Action Item

Resolution: Brandon Woolf moved to approve the minutes from December 2, 2024 Meeting. Nicole Fitzgerald seconded the motion. The motion carried on a unanimous voice vote.

3. Q4 Performance Review and Market Update – Jake O'Shaughnessy

Jake O'Shaughnessy took the floor to deliver a comprehensive review of Q4 market performance. He outlined that his update would encompass recent regulatory changes, fund adjustments made earlier in the year, and general market trends.

O'Shaughnessy began by referencing the current market drivers—specifically seven dominant stocks, with NVIDIA leading the pack. He drew a historical comparison, noting how a similar concentration of wealth existed in the late 1970s with companies like IBM and major energy producers. While investors in IBM saw tremendous returns in the short term, O'Shaughnessy emphasized that putting all one's eggs in a single basket—even one as seemingly strong as IBM—eventually falters. The takeaway: diversification and rebalancing are paramount.

Fast-forwarding to 2024, Apple and Microsoft now carry the market, yet O'Shaughnessy urged caution. He advised against focusing too heavily on large-cap growth and individual stocks, advocating instead for broad-based investing strategies. He warned that two consecutive years of 20% S&P 500 returns are not sustainable and noted that high price-to-earnings (P/E) ratios signal overvaluation. The current P/E ratios in the low twenties, compared to the historical average of 15, suggest investor exuberance may be outpacing fundamental value.

Shifting to bonds, O'Shaughnessy challenged the long-held assumption that U.S. Treasuries represent a risk-free investment. He questioned whether corporations like Alphabet might be safer in certain contexts, noting that narrow spreads between Treasury yields and corporate bonds hint at possible overvaluation in fixed-income markets. The implication: cash may be one of the few undervalued asset classes currently available.

He then turned to macroeconomic indicators, highlighting the return of inflation after a brief decline in late 2023. After reaching a low of 2.4%, inflation rebounded to 3%. O'Shaughnessy attributed part of this to wage pressures and the economic impact of immigration policy. Tariffs, he explained, also contribute by increasing the cost of imported goods, leaving consumers with only more expensive options—either domestic or taxed foreign products.

O'Shaughnessy commented on the Trump administration's approach to economic policy, drawing parallels to the early Reagan era. He speculated that current efforts to aggressively cut federal spending—despite short-term political risk—are strategic, intended to shape the ten-year budget outlook and perhaps pave the way for further tax cuts. Regarding the strength of the dollar, he believes U.S. interest rates will continue to drive its resilience against other currencies.

Next, he addressed consumer behavior. While household spending remains strong and accounts for 70% of U.S. GDP, warning signs are emerging. Pandemic-era savings are dwindling, and credit card and auto loan delinquencies are on the rise. Some deferred compensation plans are seeing upticks in emergency withdrawals and loan requests, suggesting consumer fatigue.

On performance metrics, O'Shaughnessy noted that U.S. stocks outperformed international markets by 20% in 2023. He cautioned investors who maintained a globally diversified portfolio may have seen lagging results. He reiterated that expected rate cuts in 2025 are now being reevaluated by the market.

Energy sectors have delivered exceptional returns—annualizing at 20% over the last three years—while utilities and technology have also performed well. However, with interest rates spiking and the ten-year yield stubbornly high, mortgage and auto loan rates have been heavily impacted. O'Shaughnessy predicted that these rates are unlikely to drop until inflation expectations decline meaningfully.

4. Regulatory and Plan Updates

O'Shaughnessy turned next to regulatory developments. The Department of Labor, under new leadership from Oregon, is easing some oversight burdens—though it still provides guidance relevant to government retirement plans. He introduced the "missing participant" database from Secure 2.0, which will allow former employees to locate orphaned 401(k) accounts. Though government plans aren't held to the same ERISA standards as private-sector plans, Mr. Steggell noted their systems can perform targeted searches using technology like LexisNexis when necessary.

Discussion then shifted to target date funds. O'Shaughnessy assured the board that Idaho's oversight process has remained strong and compliant. He noted that many participants are reallocating funds from the conservative fixed accounts to more aggressive equity options, likely enticed by strong market returns. Notably, while balances in the retiree fixed account have declined, overall asset movement suggests participants are becoming more confident in market exposure.

He also discussed plan holdings, identifying large cap growth funds and the S&P 500 index as top allocations. He flagged a replaced fund, TCW, which underperformed and was recently substituted with the Baird fund, which is doing well.

The target date fund discussion deepened with a focus on Vanguard's glidepath, which continues de-risking seven years after retirement. O'Shaughnessy emphasized the importance of monitoring glidepaths for fiduciary compliance.

Questions from Ms. Fitzgerald led to a detailed explanation of fund fees and share classes. O'Shaughnessy confirmed participants are primarily in institutional share classes and that 12b-1 fees are not present. Any revenue sharing is credited back to the plan. Mr. Lamm and Ms. Brewster added that recent transparency measures make all participant fees viewable on quarterly statements.

Ms. Fitzgerald asked whether the Calvert US Large Cap inclusion in the plan was performance-based or philosophically driven. O'Shaughnessy stated clearly that the fund is held to the same standards as any other and has remained in the plan due to both demand and strong performance.

Controller Woolf concluded this portion by noting that, four years ago, 39% of plan assets were in fixed accounts—now reduced to 26%—an indicator of growing participant risk tolerance.

5. Quarterly Board Report – John Lamm

Presenting on behalf of John Steggell, John Lamm provided updates on plan activity. The number of participants continues to rise, with 268 new enrollments last quarter. Contributions totaled $9.6 million, including rollovers. Average account balances hovered around $10,000, with Roth accounts growing steadily—now totaling $52 million.

Lamm noted a continued shift toward diversified holdings, with most participants owning between four and five funds. He highlighted that terminated participants hold more assets ($359 million) than active participants ($313 million), suggesting a growing need for retirement management tools.

Loan activity has also risen. There are currently 470 active loans, and while defaults occur, they're treated as taxable events rather than credit defaults. Loan usage appears to reflect broader economic strain.

Engagement metrics were positive: 70% of participants have logged into their account recently, 95% have designated a beneficiary, and 42% are using the retirement planner tool. The plan's incentive program—rewarding enrollment at 3% or higher—paid out nearly $30,000 last quarter.

Mr. Lamm addressed the emergence of a new pay center (Blaine County South Fire Protection District) and noted Twin Falls County continues to be the largest, nearing $20 million in assets.

6. Retirement Income Builder – Informational

John Lamm introduced Eric Glinsky to present on a new retirement solution: the Retirement Income Builder. This investment option, structured similarly to a target date fund, locks in a participant's high quarterly balances between ages 47 and 65, then provides lifetime income starting at 65 based on the highest captured value.

The solution offers both liquidity and portability—unlike retail annuities. If the account runs dry, participants still receive 4.5% annually for life. If the participant passes away, remaining funds pass to their beneficiary.

Glinsky emphasized that the solution is low-cost—just 0.09% pre-age 47 and 0.20% afterward—compared to the 2.7% common in retail annuities. Joint income options are available for spousal planning, and the solution transfers seamlessly to other recordkeepers.

Discussion ensued on fiduciary risk and sustainability. O'Shaughnessy expressed caution about reliance on insurance guarantees but acknowledged the solution may appeal to those without access to a traditional pension. Participants maintain full control and flexibility over their investment, unlike traditional annuities.

Closing Remarks

Controller Woolf closed the meeting with a brief recap and officially adjourned the session at 2:43 p.m.