IDAHO DEFERRED COMPENSATION BOARD
MINUTES

May 19, 2025 – 1:00pm – 3:00pm
State Controller's Office
Room 537 – 5th floor, 700 W. State St., Boise.

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

Others present were Jackie McCleve from the State Controller's Office, John Lamm, John Steggell and Jared Williams from Nationwide, Jake O'Shaughnessy from SageView.

1. **Committee questions or additions to agenda - Action Item**

Mr. Woolf called the meeting to order at 1:04 pm and asked if there were any questions or additions to the agenda. No questions or changes were requested.

2. **Approval of minutes from the Meeting on March 03, 2025 - Action Item**

Mr. Ysursa moved to approve the minutes from March 3, 2025 meeting. Mr. Skinner seconded the motion. The motion carried on a unanimous voice vote.

3. **Q1 Quarterly Performance Review and Market Recap (Jake O'Shaughnessy)- Action Item**

Mr. O'Shaughnessy then presented the economic and market update, beginning with an overview of recent volatility. While the report covered the period ending March 31, he emphasized that significant events occurred just days later April 8—dubbed "Liberation Day"—when unexpectedly steep tariffs were announced. These announcements triggered sharp reactions in the equity markets, which quickly sold off, entering technical bear territory (a 20% drop), followed by an equally rapid rebound. According to Mr. O'Shaughnessy, the market has since rallied back to its pre-announcement levels, making the March-end data already feel distant.

Mr. O'Shaughnessy introduced the VIX—the volatility index also known as the "fear gauge"—as a measure of investor anxiety. He explained how VIX spikes tend to represent buying opportunities, as volatility often reverts to the mean. He cited historic examples, including the COVID-induced market panic and a more recent, less publicized spike caused by algorithmic trading glitches. He explained that investors who short volatility during such spikes typically benefit once the panic subsides. He tied the recent volatility to the April 8 tariffs, which initially amounted to a 145% rate on Chinese goods—an embargo in all but name. Although many of these tariffs were later retracted or negotiated down (including a new trade agreement with the UK), they rattled global markets and contributed to broader uncertainty.

Turning to consumer behavior, Mr. O’Shaughnessy reviewed the University of Michigan Consumer Sentiment Index, noting a downturn in consumer optimism. He explained that sentiment above 100 indicates economic confidence and future spending, while values below 100 suggest hesitation. Currently, consumer sentiment is weakening due to rising inflation expectations, softening labor conditions, and declining household net worth. He noted that while consumer sentiment does not directly predict market returns, it is an important proxy for economic activity.

Inflation expectations—particularly long-term—have risen, with the March survey showing the highest forward-looking inflation levels in decades. Mr. O’Shaughnessy warned that such expectations can fuel immediate consumer spending, as people rush to make purchases ahead of anticipated price increases. While this may temporarily inflate GDP, it could also mask underlying economic fragility. He cited rising credit card debt and stagnating wages as contributing factors to consumer unease.

Mr. O’Shaughnessy highlighted a shift in relative performance between U.S. and international equities. For much of the last two decades, U.S. stocks outperformed due to dollar strength and global investor confidence. However, in Q1 2025, international markets gained ground, partly due to dollar weakening and foreign stimulus programs. Germany, for example, implemented a $500 billion stimulus package—uncharacteristic for a nation known for fiscal restraint. He noted the German term “*Schuld”*, which means both “debt” and “guilt,” underscoring cultural differences in public finance. By contrast, U.S. debt has doubled since 2015 while tax revenue has risen only 61%, and population growth has been modest at 5%. Mr. O’Shaughnessy cautioned that the U.S.’s increasingly unsustainable fiscal path may reduce investor confidence and impact long-term interest rates.

Mr. O’Shaughnessy also highlighted a notable performance divergence between growth and value stocks in Q1. He reported that large-cap growth stocks—such as those comprising the so-called “Magnificent Seven,” including Tesla, Apple, and Microsoft—were down roughly 8.5% for the quarter. Meanwhile, value stocks, including more defensive holdings like Walmart and General Electric, posted modest gains of approximately 1.5%. This 10% performance gap underscored the importance of diversification. Mr. O’Shaughnessy encouraged participants and fiduciaries to consider rebalancing strategies, moving some gains from high-performing sectors into undervalued areas to maintain a balanced portfolio. He added that while growth stocks had begun rebounding in recent weeks, the Q1 rotation toward value was a healthy reminder not to rely solely on momentum-driven sectors.

Mr. O’Shaughnessy reviewed interest rate trends, noting the Federal Reserve’s current position. With real yields just below 2%, the Fed still holds significant capacity to lower rates in a downturn—what he referred to as “dry powder.” He emphasized that a large portion of the Fed’s past stimulus efforts occurred when real rates fell below zero, such as during COVID and the 2001 tech crash. Mr. O’Shaughnessy clarified that the Fed is unlikely to cut rates in the near term unless unemployment rises dramatically. Inflation remains above target, and while consumer sentiment is falling, labor market indicators remain resilient.

Mr. O'Shaughnessy then shifted focus to the bond market, explaining that although the Fed had reduced short-term rates by approximately 100 basis points earlier this year, the 10-year Treasury yield had not followed suit. Instead, long-term yields remained elevated at around 4.5%. Mr. O'Shaughnessy noted that this divergence suggests a disconnect between the Fed's monetary policy and investor expectations. Typically, falling short-term rates would pull down longer-term rates—but that hasn't happened. Possible explanations include persistent inflation concerns, federal deficit growth, and reduced demand for U.S. debt by foreign buyers. He also pointed to the recent credit rating downgrades of U.S. government debt, which may be contributing to higher yield demands from investors. He concluded that unless the 10-year yield drops meaningfully below 4%, it's unlikely the U.S. will enter a sustained bull market. The elevated bond yields, in his view, are flashing caution about the broader fiscal picture.

Mr. O'Shaughnessy also addressed concerns about a potential recession. While recession risk was viewed as low at the start of the year, the tariff announcements and weakening Q1 GDP have changed the outlook. JP Morgan has since raised its estimated probability of a 2025 recession to 60%. He explained that recessions are often only recognized in hindsight, and there's a real possibility the U.S. is already in one, depending on the Q2 data.

In a historical comparison, Mr. O'Shaughnessy referenced the Smoot-Hawley Tariff Act and a scene from *Ferris Bueller's Day Off* to illustrate the unintended consequences of aggressive protectionist policies. He noted that an effective tariff rate of 22.5%—similar to the 1930s—would likely push the U.S. into recession. Fortunately, recent negotiations have pulled back those rates to more manageable levels in the low teens.

He concluded his economic overview by discussing the yield curve. While the Fed has cut short-term rates, the 10-year Treasury yield remains stubbornly high—around 4.5%—suggesting market skepticism about inflation control and federal fiscal policy. He also noted the possibility that foreign governments may be reducing their purchases of U.S. debt, further driving up yields.

4. **Recent Developments (regulatory or market place) - (Jake O'Shaughnessy)- Action Item**

Mr. O'Shaughnessy then transitioned to regulatory updates. Beginning in 2026, catch-up contributions for participants earning over $145,000 in FICA wages must be made in Roth format. He noted that certain public safety personnel without FICA-covered wages might not be subject to this rule. He explained the federal budgetary logic behind this change: Roth contributions generate immediate tax revenue, which the Congressional Budget Office can score. By contrast, traditional deferrals represent deferred taxation and don't count in 10-year revenue projections. He warned that additional "Rothification" policies may emerge, potentially requiring high-income earners to split contributions between Roth and pre-tax dollars in exchange for higher limits.

From a plan health perspective, Mr. O'Shaughnessy presented a favorable report. The plan currently holds approximately $685 million in assets, with excellent fund performance across all categories. Fixed accounts and large cap growth funds remain the largest allocations, though target date funds are also widely used. All funds are performing in the top quartile or decile of peer comparisons, with strong five- and ten-year returns. Mr. O'Shaughnessy noted the funds continue to perform well. Mr. O'Shaughnessy encouraged continued diversification and regular portfolio rebalancing.

Mr. O'Shaughnessy also took a closer look at the Vanguard Target Date Funds, which remain a widely used option within the plan. He explained that Vanguard's glidepath follows a conservative but industry-consistent approach, with slightly lower equity exposure for younger participants and a sharper reduction in equity in the early years of retirement. This "de-risking" phase is designed to protect participants during early withdrawals.

He also introduced SageView's "Navigating Volatility" workshops, which are available to all plan participants. He offered to assist with distribution through HR channels or payroll leads.

5. **Quarterly Board Report (John Steggell)– Action Item**

Mr. Steggell from Nationwide provided a detailed administrative update. He reported that the plan experienced a $13 million market loss in Q1 but had since fully recovered, with assets returning to January 1 levels. The plan serves 10,795 participants, with an average balance of nearly $64,000. Notably, over half of plan assets are held by separated employees, emphasizing the importance of Nationwide's retention efforts.

Mr. Steggell praised recent gains in Roth participation—now totaling nearly $54 million across roughly 3,600 participants—and noted a healthy average Roth balance of nearly $15,000. Plan contributions totaled $17 million in Q1, with a notable $6 million in rollovers—tripling the prior quarter's rollover volume. Much of this increase came from the City of Lewiston, which recently transitioned from Mission Square to the state plan after a fiduciary review determined that the state plan offered better pricing and service.

Mr. Steggell acknowledged a modest increase in plan rollouts and explained that participants often receive advice to move funds when leaving state employment, even though that's not necessary. He reiterated Nationwide's messaging to discourage premature rollouts. He also reviewed asset allocation trends, noting that 34% of assets are in large cap stocks, 16% in target date funds, and just under 28% in fixed or cash investments.

He reported a slight uptick in participant loans, with 470 outstanding loans totaling $4 million. New loan amounts are relatively small, with the average loan around $8,500, well below the average of $11,000.

On participant engagement, Mr. Steggell reported strong digital adoption: 62% of participants receive e-communications, 70% have online accounts, and 94% have designated beneficiaries. The online retirement planner was used by 44% of participants, and the My Investment Planner tool saw 91 users last quarter.

Mr. Lamm highlighted a plan incentive program designed to encourage new enrollments and boost contribution levels. Mr. Lamm explained that the incentive offers participants a monetary reward for enrolling at specific contribution thresholds: those who enroll at a 3% deferral rate receive a $100 incentive, while those who choose a 5% deferral rate receive $200. The goal of the program is to promote stronger savings habits from the outset and position the plan competitively alongside other retirement benefit options, such as traditional 401(k)s.

He reported that during Q1 2025, the plan issued 222 incentive payments, totaling $39,100. This represented continued momentum from prior quarters and reflected growing awareness of the program among new hires and eligible employees. Mr. Lamm added that the program has proven effective in driving enrollments and increasing initial contribution levels. Mr. Williams shared feedback from participants who appreciated the gesture, even if modest, and noted that small, immediate incentives can have a strong behavioral impact when paired with positive messaging.

Mr. Woolf chimed in, observing that while the incentive isn't as flashy as a large bonus, it resonates with employees—especially when they share their experience with coworkers. Mr. Williams jokingly remarked that it's not quite the same as "finding a $100 bill in the parking lot," but it does spark engagement and conversations among new enrollees. Mr. Lamm agreed, noting that these word-of-mouth moments help build awareness across agencies and entities statewide.

Mr. Steggell continued that website traffic and call center volume increased due to market volatility, with 1,141 calls handled in Q1. Nationwide maintained an 84% response rate within 20 seconds, despite record-high national call volumes.

Mr. Lamm also walked through the pay center balance report. He shared BC South Fire Protection District had been recently added. In addition, the City of Moscow was in the process of transitioning from Mission Square to the State Plan, following a similar fiduciary review process recently undertaken by the City of Lewiston. Mr. Lamm noted that local officials had reviewed plan fees and determined that the State Plan offered superior value, prompting them to consolidate under the State umbrella.

After the conclusion of the presentation from Nationwide Mr. Woolf raised a suggestion from plan participants regarding enhanced multi-factor authentication. Mr. Steggell confirmed that Nationwide uses MFA for new devices and login anomalies but does not require it on every login from the same device. Ms. Fitzgerald expressed interest in universal MFA for added security, and Mr. Steggell agreed to review the current settings.

Mr. Woolf also discussed a recent legal request regarding a deceased participant's account. The Attorney General's Office assisted with the necessary legal review, and the Board may consider formalizing the process by which the AG's office supports these inquiries, especially if legal billing is involved.

The Board then discussed the upcoming expiration of Nationwide's contract in June. Mr. Woolf invited Mr. O'Shaughnessy to comment on the best fiduciary practices. Mr. O'Shaughnessy suggested reviewing the fee structure and exploring a possible fee reduction, given the plan's growth. He also recommended revisiting fixed account crediting rates and evaluating service levels.

Mr. Steggell confirmed that Nationwide had already developed a proposal with improved pricing and enhanced fixed rates and offered to share it with Mr. O'Shaughnessy and the Board. The group agreed to review the draft and possibly hold a special meeting prior to the next scheduled board meeting in August.

The meeting concluded with brief remarks from Mr. Williams, who noted that while some participants were initially concerned about market fluctuations, most remained calm once balances recovered. He reported that field operations were running smoothly, with adequate staffing across the state and specialized services for near retirees.

With no further discussion, Mr. Ysursa made a motion to adjourn. Mr. Skinner seconded and the meeting was adjourned at 2:16pm.