

IDAHO DEFERRED COMPENSATION BOARD

Minutes

June 17, 2024 - 1:00pm-3:00pm Idaho State Controller's Office

700 West State Street, 5th floor Room 537, Boise, ID

The following board members were all present in person: State Controller Brandon Woolf, Lisa Mason representing the Secretary of State's Office, Phill Skinner representing the Attorney General's Office, and Ben Ysursa representing the Governor's Office.

Others present were: John Lamm and Laura Leigh Brewster from Nationwide, Rachel Grove from the State Controller's Office, Sarah Browning from American Century Investments, and Jake O'Shaughnessy from SageView. John Steggell from Nationwide was present virtually.

State Controller Brandon Woolf called the meeting to order at 1:03 p.m.

1. Committee Questions or Additions to Agenda- Action Item

Resolution: None

2. Minutes- Action Item

Resolution: Mr. Ysursa moved to approve the minutes from February 26, 2024 meeting. Ms. Mason seconded the motion. The motion carried on a unanimous voice vote.

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

Controller Woolf introduced Jake O'Shaughnessy with SageView to speak about the quarterly performance review. Mr. O'Shaughnessy began by stating that the stocks more commonly known as the "Magnificent 7" led the way during the very beginning of the 2024 year, but that shifted slightly with improved earnings growth for the "Forgotten 493" companies throughout the first quarter 2024. He also mentioned that both gold and Bitcoin reached all-time highs, which is indicative of increasing concerns about inflation. Mr. O'Shaughnessy pointed out that despite the Fed's not cutting interest rates, the stock market continues to see all-time highs in performance.

Mr. O'Shaughnessy then talked about inflation, and mentioned that in June 2022 saw inflation run about 10%, which caused the Fed to raise interest rates very quickly to reduce those inflation rates. Now that those rates have slowed, many are wondering when the Fed will cut interest rates in 2024. Mr. O'Shaughnessy reported that the persistence of a strong economy is preventing the Fed from cutting interest rates, and that it is possible to see one rate cut throughout 2024, which is significantly less than predicted. The CPI reported at about 3.5%, which Mr. O'Shaughnessy stated is slowly trending in the right direction.

Mr. O'Shaughnessy then talked about the economic scoreboard, noting that high rates of job creation, consumer spending, GDP growth, and corporate earnings are all positively impacting the economy. He pointed out that there is still some COVID money that is trickling out and fueling the economy, but at a significant cost to the Federal fiscal spending. Mr. O'Shaughnessy mentioned negative impacts on the economy, namely inflation, global trade, fiscal spending, and higher interest rates. Mr. O'Shaughnessy briefly mentioned that there have been no single rate cuts from the Fed through June 2024.

Mr. O'Shaughnessy reported on equities during the first quarter 2024. He highlighted that the State of Idaho plan is rather interesting because the two largest holdings are the stable value options, followed closely by two large cap growth options. During the first quarter 2024, large cap growth funds were up 11.9%, and over the last year they have been up nearly 40%, with almost \$100 million in this asset category of the plan. On a sector-by-sector basis, Mr. O'Shaughnessy reported that there has been a rotation, indicating that even though the technology sector has been performing quite well many active managers are hesitant to invest since the value is only split between a small handful of companies.

Mr. O'Shaughnessy then talked about international vs. domestic stocks, starting off by saying that a lot of this performance is closely correlated to how strong the dollar currently is. He mentioned that about 15 years ago, the share of global market capitalization was split between US and international stocks about 50/50. However, in recent times, the US has performed quite well and is now holding about 64% of that share. Mr. O'Shaughnessy pointed out that these trends happen throughout history, with a pattern showing the US and international stocks trade off outperforming each other. He mentioned that because of this cycle, international stocks might be a good investment in the near future.

Mr. O'Shaughnessy reported on fixed income, stating that this quarter is the first quarter to see consistent interest rates because the Fed has kept them at around 5% for the last year. He stated that these interest rates impact longer term rates, and mentioned that 10-year rates are sitting at around 4.2%. Mr. O'Shaughnessy explained that anything over 5% at this 10-year mark would be a concern to market investors because people tend to sell off their equities and move over into bonds. Mr. O'Shaughnessy reminded the board that last year this 10-year rate has fluctuated around the 4% mark for the past year, but as markets are becoming more confident that the Fed is not going to raise interest rates in the near future that rate might continue to fall below 4% and create a sustained bull market.

Mr. O'Shaughnessy talked about capital preservation products, and explained that there are three different kinds: fixed accounts, stable value funds, and money market funds. He reminded the board that by law, the State plan must allow participants to have access to capital preservation products in their investment lineup, and that the State of Idaho currently has a fixed account as part of its portfolio. Mr. O'Shaughnessy further explained that money market funds have more volatility and are dependent on Fed policy, and over the long term may not keep pace with the other fund types. He added that stable value funds add a wrap insurance agreement around any investments in these types of funds so that participants can at least receive their money back if the value drops. Fixed accounts have a single issuer and is based on their credit rating, which Nationwide is the issuer for the State of Idaho plan.

Mr. O'Shaughnessy noted that it is extremely difficult to toggle between the different capital preservation products, meaning that a plan cannot switch back and forth between money market funds or a fixed account when the economy favors one or the other. This is to ensure that the insurers of the funds don't lose a significant amount of money from these transactions. Mr. O'Shaughnessy reported that for fixed account products, the State plan would face significant exit provisions. He added that fixed account products have performed significantly better than money market funds over the long term, so while money market funds are currently performing better, fixed accounts funds perform significantly better overall.

Questions: None

Resolution: None

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

Mr. O'Shaughnessy talked about legislative and regulatory items during the first quarter 2024. He mentioned SECURE 2.0, stating that there are two components to the act: required provisions and optional provisions.

Mr. O'Shaughnessy reported that in 2024 the optional provisions were student loan matching, penalty-free withdrawals for certain emergency expenses, emergency savings accounts linked to individual account plans, and penalty-free withdrawals for victims of domestic abuse. Mr. O'Shaughnessy offered that if the board had any questions about these provisions that SageView can walk through each of them in detail. Mr. O'Shaughnessy said that he didn't think there were a lot of optional provisions available that the plan would need to consider, and that they would readdress provisions in 2025.

Mr. O'Shaughnessy then talked about the Fiduciary Rule passed in April 2024, which was intended for brokers who are interested about rolling plan participants out of a financially prudent plan into areas that might not be as financially sound. The "Retirement Security Rule" adds additional rules and regulations to mitigate against this.

Mr. O'Shaughnessy mentioned target date funds, and reported that there are some fund families that have been called out because they have been using inappropriate indexes to benchmark themselves. ERISA is challenging their benchmarks, pointing out that they need to create better processes to establish benchmarks.

Mr. O'Shaughnessy then began talking about the plan assets. He stated that the top four funds in the plan are both the most conservative and most aggressive funds offered in the State plan. He reported that about 1/3 of the plan is in the Idaho Retired Fixed and Nationwide fixed accounts. He also mentioned American Century Ultra and Fidelity Contrafund, large cap growth funds, as the next largest funds in the plan. He stated that these two funds performed exceptionally well, up about 40%, at the end of 2023. Mr. O'Shaughnessy briefly mentioned the socially responsible fund, the Calvert US Large Cap, and that it is one of the larger plan assets. He then continued to talk about the Vanguard Target Date Funds, where they are based off of the projected retirement age of participants. Self-directed brokerage is 1.24% of the plan. He mentioned that the plan offers loans, but that the loan amount is quite low compared to other plans. The total of the plan assets is around \$675 million through the first quarter 2024.

Mr. O'Shaughnessy reported that some of the plan assets moved out of the fixed accounts into other equities. The target date funds are all gradually ticking up in usage. He also mentioned the self-directed brokerage option, where it increased from \$7.2 million to \$8.4 million in the first quarter 2024 alone. The fixed accounts show steady long-term performance. Mr. O'Shaughnessy also reported that all index funds are tracking their benchmarks and are performing well. Mr. O'Shaughnessy reported that the plan offers two bond index funds, with Vanguard as a passively managed fund and Metropolitan West as an actively managed fund. Metropolitan West was the only fund that is not meeting the benchmark expectation, falling in the 3rd quartile. He explained that funds are ranked from 1 being the best and 99 being the worst, and Metropolitan West was ranked at 52. Even though the fund was only slightly underperforming, Mr. O'Shaughnessy recommended to keep the fund on the watchlist for another quarter.

Mr. O'Shaughnessy reiterated the plan's large cap growth funds performed extremely well, and briefly mentioned American Century Ultra fund. He asked Ms. Browning to offer up any insights into this particular fund.

Ms. Browning stated that this was her second week on the job, but that she has seen that the team who manages that fund does not deviate from their philosophy and investments are pretty concentrated in the Magnificent Seven. She also reported that the team is very stable and has not had any turnover and is fully backed by American Century as one of their flagship strategies.

Mr. O'Shaughnessy added that Contrafund performs very similarly to the American Century Ultra fund, but that they may not be as concentrated in their investments. He summarized that outside of Metropolitan West all of the other plan funds are performing quite well, including the small cap growth and international funds. Mr. O'Shaughnessy further explained that the Vanguard target date funds are considered through retirement funds, where they begin to de-risk about 7 years after the retirement date and move into the Vanguard retirement fund.

Mr. O'Shaughnessy again mentioned Metropolitan West, stating that this is the 3rd quarter that it is underperforming its benchmark. He stated that if it underperforms one more quarter, the board can have a more in-depth conversation on alternative plans during the next meeting.

Mr. O'Shaughnessy switched to talk about the Vanguard target dates funds once more, and highlighted their glide path. He explained that younger plan participants experience more market volatility in their investments, and then the plan continues to slowly de-risk until their retirement date, where the plan quickly de-risks over the course of 7 years and becomes more conservative.

Resolution: Mr. Ysursa moved to keep Metropolitan West on the watchlist for another quarter. Ms. Mason seconded the motion. Mr. Skinner asked for additional clarification on the process of putting a fund on the watchlist and the board's next steps. Mr. O'Shaughnessy explained it is a way to document as fiduciaries that a fund is not meeting the plan expectations. He also explained that the watchlist helps to more closely monitor underperforming funds until it is clear that a replacement fund is necessary. Controller Woolf added that the board asks SageView to bring recommended fund replacements that are of the same value so that plan participants still have a variety of investment options in the 457 plan.

Mr. Skinner also asked if plan participants can cherry-pick which funds they want their money invested in. Mr. Lamm explained that during the enrollment process, the participant chooses which funds they want their money invested into in the plan. Mr. Skinner asked if an employee would have a snapshot of each fund's performance when they are picking which fund to invest into. Ms. Brewster answered that there is a Morningstar fact sheet that describes the fund performance, as well as the top 10 holdings and the manager of the fund. Ms. Browning clarified if it was true that an employee could call Nationwide for assistance in enrolling into the State plan. Ms. Brewster and Mr. Lamm both confirmed that was true.

Mr. Skinner asked if Metropolitan West had historically been a better performer. Mr. O'Shaughnessy replied that Metropolitan West historically performed great, but it has only been in the last three quarters that it has underperformed. Mr. O'Shaughnessy clarified that he looks at how long a fund has been on watch and the magnitude of its underperformance before looking at any replacement funds. Ms. Brewster asked if anyone knew what might have taken place to have caused the performance to fall. Ms. Browning reported that she looked it up and found that at around the time the performance began to fall Metropolitan West had added two new portfolio managers, potentially leading to a shift in philosophy and process. Mr. O'Shaughnessy also added that Metropolitan West built their portfolio surrounding the idea that interest rates would fall, which has not yet happened. He explained that if their performance does not improve when interest rates do fall, then it would be cause for concern.

Controller Woolf asked Mr. O'Shaughnessy if he could explain how SageView calculates a fund's ranking. Mr. O'Shaughnessy explained that SageView takes a weighted average of various modern portfolio theory statistics. One of the main criteria points is how a fund ranks compared to their peers. Others take other criteria into account, such as risk and alpha, which then averages out to create SageView's ranking.

Controller Woolf reminded the board that a motion was put forth regarding keeping the Metropolitan West on the watchlist. The motion carried on a unanimous voice vote.

5. Quarterly Board Report – John Steggell – Action Item

Controller Woolf introduced John Steggell with Nationwide to speak about the quarterly report. Mr. Steggell started off with asset growth, stating that the fixed and retiree fixed assets are shrinking while the assets in the variable funds are increasing. He reported that the assets are at a record high in the plan, which is due to market gain. Mr. Steggell then talked about loan activity, reporting that there were 39 new loans paid out totaling \$571,701 with the loan average of \$14,659 during the first quarter. He reported that the first quarters of each year appear to be the largest amount of loan activity, which was consistent in the first quarter 2023.

Mr. Steggell then talked about the participation summary, where there were 10,406 total participants in the first quarter 2024. 4,570 are actively deferring and 4,535 are inactive, with 1,301 are currently in their payout phase. He talked about participant count by age group, and highlighted that most of the participants fall in the age 50 and up category. Mr. Steggell reported that Nationwide is making a conscious effort to keep money in the plan and not let it leave in rollouts or distributions. He also mentioned the plan average balance in the first quarter 2024 was \$64,473, noting that the younger participants will carry a smaller account balance and those closer to retirement will have a much higher account balance. He noted that there is a significant increase in the account balance between participants that are below 60 than to those that are 60 and up. Mr. Steggell added that the plan average contribution is higher than many other plans, with \$8,808 reported in the first quarter 2024.

Mr. Steggell briefly talked about asset class, and reiterated what Mr. O'Shaughnessy previously talked about. He stated that one year prior, the large cap growth assets were about 31% and is now 33% in the first quarter 2024. He stated that the State 457 plan follows the same pattern as other deferred compensation plans, with the contributions mainly concentrated in large cap stock, short term, and asset allocation. Mr. O'Shaughnessy asked Mr. Steggell about the shift in contributions between asset classes, noting that there is a 10% increase in large cap stock between the fourth quarter 2023 and first quarter 2024. Mr. Steggell agreed, stating that there was a significant shift, where participants have seen the market go up and are trying to capitalize on those asset gains.

Mr. Steggell briefly mentioned Roth activity, with more than \$44 million in Roth assets and 3,236 participants enrolled. He noted that just one year prior, the assets totaled around \$33 million, indicating that plan participants are quickly taking advantage of the Roth option.

Mr. Lamm then spoke on the quarterly onsite activity, reporting that during the first quarter 2024 there were 631 individual meetings, with 379 virtual and 252 in person. There were 18 group meetings with 196 in attendance. Mr. Lamm stated that Ms. Brewster does the new employee orientations each month, and reported that they have been well attended. Ms. Brewster reported that many people sign up for these sessions, with about 50-60% of people actually in attendance. She added that people can sign up on the website now, which was not previously done. Mr. Lamm then stated that Mark Knudson, Nationwide's personal retirement consultant, had 105 virtual meetings and 58 in person sessions.

Mr. Lamm then talked about participant deferral actions, noting that new enrollments continue to be pretty consistent throughout the year. He also talked about the incentive program, and stated during the first quarter 2024, \$20,200 was paid out in bonuses to 119 new enrollments. Mr. Lamm reminded the board that if a participant enrolls at 3%, they are eligible to receive a \$100 incentive bonus. If they enroll at 5%, then they are eligible to receive a \$200 bonus.

Mr. Lamm continued to talk about website usage, reporting that there were 32,645 account balance inquiries on the website. He added that throughout the first quarter 2024, 5,397 participants logged into the app using 819 unique devices.

Mr. Lamm then talked about the call center and reported there were 1,050 calls during the first quarter 2024, and 94% of those calls were answered within 20 seconds. Mr. Lamm added that there was only 1 call abandoned. Mr. O'Shaughnessy noted it is a good sign that even though the number of calls went up, there were less abandoned calls during the first quarter than in prior quarters.

Mr. Lamm then spoke on the reimbursement account, and reported that the beginning balance at the end of the fourth quarter 2023 was \$304,818 and ended the first quarter 2024 with \$314,560. He highlighted the monthly excess revenue, which is paid from the Dodge & Cox fund. He noted the savers credits charges and payment to Eide Bailly. Mr. O'Shaughnessy further explained that the 457 plan must be paid for, and that there are typical expenses, such as payments to Nationwide, consulting firms, or audit fees. Mr. Lamm spoke on the Revenue Report, and stated that the only revenue from a fund that comes in comes from the Dodge & Cox fund and is then added to the reimbursement account.

Mr. Skinner asked what the excess revenue was on the report. Mr. O'Shaughnessy replied that plan investors would pay an expense ratio with each fund account and a part of that rate would go back to the record keeper, which wasn't a very transparent process. The revenue report is a disclosure on how much money Nationwide is making on each account. He reiterated that they have moved away from doing this, and the only fund that can't do that is the Dodge & Cox fund as there is not a cheaper share class. Ms. Brewster added that the expense ratio is on the menu that all participants can see when enrolling into the plan.

Mr. Skinner asked how the expense is broken down by Nationwide. Mr. Lamm stated that it is reported on the asset fee summary, where the State of Idaho plan collects three basis points and Nationwide collects 11. For the first quarter 2024, these basis points totaled \$49,008 and \$179,895. Mr. Ysursa mentioned that in the past this information was not as transparent, but now the information participants can see is quite a bit.

Mr. Lamm talked about pay centers, and reported 104 total pay centers. He stated that it is fairly simple for these entities to adopt the State plan.

Questions: None

Mr. Steggell then talked about retirement readiness, which shows how many participants are prepared for retirement. As of the first quarter 2024, 10,406 total are enrolled and 7,063 are enrolled with an online account. 4,349 participants have a retirement goal, and Mr. Steggell reported that 54% of the plan participants are on track for retirement.

Mr. Steggell concluded the presentation with the quarterly report from Schwab. Mr. Steggell pointed out that \$423,940 is in cash investments, about \$2.5 million in equities, \$1.6 million in ETFs, \$1.9 million in fixed income, and \$2 million in mutual funds. Mr. Steggell happily reported that most of the investors in the Schwab account are buying securities and investments that are not part of the core lineup in the 457 plan, specifically ETFs, fixed income, and equities. He

reported that some people are chasing the higher short-term interest rates, which is consistent across all plans. Mr. Steggell also stated the average trades per account show that these participants are buying and selling stocks.

Questions: None

Resolution: None

6. Census Data for Those Enrolled Through Luma – John Lamm

Controller Woolf asked Mr. Lamm to speak on census data for those enrolled through Luma. Mr. Lamm explained that there are state employees signing up to set aside contributions to a 457 account, but they fail to also enroll in an account with Nationwide. This causes the money to be sent to Nationwide, but no account is set up for the money to be invested in. Mr. Lamm requested to receive some kind of census data so they can compare the list of those who have set up a 457 account in Luma with who has completed the enrollment process at Nationwide. He also asked if there was a way to receive contact information for those individuals who are still needing to set up the enrollment process with Nationwide, as they do not currently have access to any of that information. Ms. Brewster added that Nationwide can only hold onto these funds for 30 days, and then they will get sent back to the contributor. Controller Woolf replied that he will check to see if that is a possibility.

7. Increase Campaign One Time Incentive – John Lamm – Action Item

Controller Woolf then asked Mr. Lamm to talk about the one-time incentives. Mr. Lamm explained that along with the enrollment incentives, there was the possibility of giving current participants an additional incentive if they complete a contribution increase once per year. Mr. Lamm reported that a few of the reps suggested the idea of bringing back a one-time increase incentive, possibly around raises. He added that the money would come from the reimbursement account. Ms. Brewster stated that it could be reviewed on an annual basis, and continually review the health of the reimbursement account.

Controller Woolf asked for additional discussion, and wanted to know if there were thoughts around a particular dollar amount and what the parameters would be for giving an incentive bonus to a participant. Controller Woolf also mentioned wanting to give enough time for plan participants to know about this opportunity. He also added that from the state employee perspective, their CEC is not going to be available until after the close of the fiscal year, which is June 30th. Mr. Lamm suggested that the incentive can be introduced next year, after there has been enough time to plan for such a rollout.

Mr. Skinner asked if the money for the incentive program comes from the reimbursement account. Mr. Lamm confirmed it was, and said they are the line items entitled Savers Credit on the balance sheet. Mr. O'Shaughnessy added that a few years ago there were incentives paid out for increases, but that was a significant amount of money so the board opted to hold on paying out incentives for contribution increases for current participants. Mr. Skinner asked if there was a reason that we have more money in the account currently than before. Mr. O'Shaughnessy replied that the account naturally grows each quarter, but not as quickly as it used to before. He speculated that if there is already \$300,000 in the account, it might be more than what is currently needed.

Mr. Skinner asked if there was some equitable way to distribute the money back to the participants instead of paying out incentive bonuses. Controller Woolf stated the board has done that before. Mr. O'Shaughnessy added that the money would come out pro rata to each participant. Mr. Skinner asked what the advantage would be in choosing the incentive bonus

option. Ms. Brewster replied that it incentivizes the behavior to save more for retirement. Mr. Lamm also added that as the plan grows, fees come down so everyone benefits.

Mr. Skinner asked how many participants we currently have in the plan. Mr. Lamm responded that there were around 10,500 participants. Controller Woolf added the question on how can we try to re-engage with those participants who are in an inactive status. Ms. Brewster clarified that there are plan participants who have left service, but still keep their 457 account on the premise that they can pull their money out before 59 ½ years of age. Mr. Lamm stated that his team can run that number to see how many participants have left employment vs. how many are truly inactive. Mr. O'Shaughnessy stated that there are some participants who reduce their contribution amounts, and the incentive bonus would help to re-engage them in a conversation on increasing those contributions.

Controller Woolf asked Mr. Lamm and Ms. Brewster if there was anything they were hearing from participants. Both Mr. Lamm and Ms. Brewster reported that they frequently get questions from participants about the incentive program. Ms. Brewster added she gets asked frequently when the increase incentive bonus will come back.

8. Department Access – Laura Leigh Brewster – Action Item

Ms. Brewster reported that she covers most of the Ada County agencies, and is currently running into difficulties getting into agencies to speak with them about the 457 plan. She reported that there are two possible reasons: 1) there is a change with how their HR is structured, especially with Luma, and 2) the health insurance coverage has changed so there is so much more going on that is pushing aside this conversation. She also reported that there has been enough turnover that she has spoken with some people who aren't aware of the 457 plan.

Ms. Brewster asked the board what kinds of strategies she could implement to help her facilitate more discussions with other agencies. She added that previously there was a letter sent out to employees talking about the 457 plan, which could help her receive recognition and might make it easier for her to get in the door at some agencies. She also suggested to have campaigns encouraging participants to increase their contributions if the incentive bonus program isn't going to be rolled out until possibly the following year. Ms. Brewster added that she doesn't want to overwhelm any of the employees, but that she wants to make sure that they recognize Nationwide when they come to speak with them.

Ms. Brewster mentioned that the online enrollment process will look different starting in July. She stated that these changes are good, that it will increase functionality for the user when signing in online. Ms. Brewster asked for clarification between the State Appellate Public Defender and the State Public Defender Commission. Mr. Skinner stated that he isn't quite sure what the distinction is between the two agencies. Controller Woolf added that one of the agencies is adding about 300 employees from the counties on October 1st. Controller Woolf stated that there is a team working on setting up the agency, and asked Ms. Brewster if there was anything else that she needed. Ms. Brewster stated she was clear, and didn't want any oversight on her end. Controller Woolf suggested that Ms. Brewster go over and meet with DHR to help her with getting access to various state agencies.

Questions: None

9. Recap – Action Items

- a) Keep Metropolitan West on the watchlist.
- b) Next board meeting will be held August 26th at 1:00 pm.

Controller Woolf adjourned the meeting at 2:57 p.m.