

IDAHO DEFERRED COMPENSATION BOARD

Minutes

February 27, 2023- 1:00pm-3:00pm Idaho State Controller's Office

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

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

Others present were: John Lamm, Laura Leigh Brewster, Jared Williams, and Mark Knudson, all from Nationwide, Rachel Grove, State Controller's Office, Phil McGrane, Secretary of State, and Brad Berls and Abbie Belthoff from Eide Bailly. John Steggell, Nationwide and Jake O'Shaughnessy and Stuart Payment from SageView were present virtually.

State Controller Brandon Woolf called the meeting to order at 1:02 p.m.

1. Committee Questions or Additions to Agenda- Action Item

Resolution: None

2. Minutes- Action Item

Resolution: Ms. Mason moved to approve the minutes from December 5, 2022 meeting. Ms. Weaver seconded the motion. The motion carried on a unanimous voice vote.

3. Presentation on the Audit and 2021 Financial Statements – Eide Bailly – Brad Berls and Abbie Belthoff – Action Item

Controller Woolf introduced Abbie Belthoff and Brad Berls from Eide Bailly to present on the 2021 audit and financial statements. Mr. Berls started off by saying that this is the second year their team has been conducting an audit for the Deferred Compensation Board. Mr. Berls confirmed that the second year was well done, with zero journal entries, past adjustments, or findings. Mr. Berls stated that Eide Bailly issued an unmodified opinion, which is the best that can be received. He continued by saying that there are no new accounting standards either, which was very similar to the report that was given last year.

Controller Woolf asked Mr. Berls if they had any feedback for the office regarding the coordination of efforts between various staff members in getting the appropriate documentation.

Mr. Berls stated that this coordination of efforts is why the report was so much easier to complete this year. He added that it helped in getting things done quicker, where Eide Bailly knew better what to ask for and the office knew better what to provide.

Controller Woolf asked Mr. Berls and Ms. Belthoff if they had any additional questions or concerns for the Board. Mr. Berls responded, stating that other systems have people specifically designated to work on Deferred Compensation as their full-time job. Controller Woolf asked if he meant more of an executive director role and Mr. Berls clarified by saying that they are more of a manager position. Mr. Berls reiterated that this is not a requirement, but an observation of other clients that work at a similar size.

Secretary of State McGrane asked what that role would be, pointing out that by contract Nationwide has designated staff that works to enroll people into the plan.

Mr. Berls agreed, and added that there could be more outsource versus internal factors as well as the ability to do monthly reconciliations. Mr. Berls added that other clients have a designated accountant plus a Deferred Comp Manager.

Ms. Belthoff added that the difference is more on the reconciliation side, where there are strategic decisions made in conjunction with their advisor, but a lot of it is doing monthly or quarterly reconciliations with the accounting records and Nationwide's records and presenting them on a consistent basis.

Mr. O'Shaughnessy stated that he works with a number of plans out there around the \$500 million range, and that he isn't sure if the majority has a dedicated representative at that point. He did state that it might be worth thinking about regarding the State of Idaho Deferred Compensation plan. Mr. O'Shaughnessy used the State of Kansas as an example, stating that they are around \$2 billion with 20,000 participants and roughly 1.5 dedicated representatives. Mr. O'Shaughnessy stated that he would be happy to further discuss similarities that he sees in other plans.

Resolution: Mr. Ysursa moved to adopt the audit report from Eide Bailly. Ms. Weaver seconded the motion. The motion carried on a unanimous voice vote.

4. Q4 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 overall, the plan investments are looking very good relative to the market. He also reported that 2022 was an anomaly where both stocks and bonds fall. Mr. O'Shaughnessy also stated that diversification does indeed work over time, but in 2022 it didn't work. Mr. O'Shaughnessy explained that generally when stocks fall, bonds rise and vice versa. Mr. O'Shaughnessy further explained that during periods of economic slowdown stocks usually tend to fall, and the Federal government can assist by cutting interest rates to help stimulate the economy. Mr. O'Shaughnessy stated that instead of the Federal government helping the economic slowdown by cutting interest rates, they actually raised them instead, resulting in existing bonds falling in value.

Mr. O'Shaughnessy pointed out that investors in their twenties or thirties find the current market rather attractive because they are able to buy stocks at historically more reasonable valuations, which over a 20 to 30-year window would help to accrue wealth. Mr. O'Shaughnessy also stated that this event is an anomaly and shouldn't fundamentally change the long-term investment strategy.

Mr. O'Shaughnessy continued reporting on 2022, and stated that the Federal government and Chairman Powell took it to task to bring inflation at bay. He reminded the Board that the Federal government has raised interest rates about 400-500 basis points, but that they might only have to raise it about 50 more basis points before it is all over. Mr. O'Shaughnessy also pointed out that most investors believe this dramatic spike in interest rates will be about a 12 to 24-month hiccup as the economy recovers from COVID. He continued by saying that the bond market should return to fairly normal growth in about 3-10 years, barring any macroeconomic factors, such as the war in Ukraine.

Mr. O'Shaughnessy pointed out the irony of the US economic growth, which has been continually robust and exceeding expectations, which in turn makes it difficult for the Federal government because they cannot stop raising interest rates until the economy slows down. Mr. O'Shaughnessy speculated that it is possible the increased interest rates might settle

somewhere around 5 or 6%, and that the last three decades might be considered as having abnormally low interest rates.

Mr. O'Shaughnessy then pointed out that there are more negative factors that are influencing the economy moving into 2023 than there are positive, namely housing and fiscal spending. Mr. O'Shaughnessy stated that interest rates have risen with regards to housing, but that the housing market has remained resilient despite this increase. He also talked about fiscal spending, and stated that this could have some temporary volatility as well as some long-term impact on the economy, such as negotiations regarding the debt ceiling limit.

Mr. O'Shaughnessy talked about a few key dates, stating that March 16th will be when the FOMC (Federal Open Market Committee) makes a decision about rates. He also stated that the Consumer Price Index (CPI) comes out on March 14th, which is what the Federal government will use to make their rate decision on the 16th.

Mr. O'Shaughnessy then talked about performance of all of the funds in the plan. He stated that stocks were down, but not all stocks were down the same. Mr. O'Shaughnessy pointed out that NASDAQ and Russell 2000 Growth, more aggressive stocks, were down significantly, with NASDAQ down nearly 33% for the year. He also stated that the S&P 500 went down only half as much as NASDAQ or other growth stocks, but reminded the Board that it is more of a value-oriented stock. Mr. O'Shaughnessy began talking about the correlation between the value of the dollar and US stock returns, and stated that a strong dollar results in US stocks selling off. Mr. O'Shaughnessy reported that the US dollar has gotten quite strong in the last 18 months due to the higher rates, but when the dollar weakens, it could lead to a boon in stocks.

Mr. O'Shaughnessy talked about the fixed account, and informed the Board that retirees are guaranteed at least a 3% rate, which is very competitive. Mr. O'Shaughnessy explained that when there is market volatility, members typically flock to these types of investments. Mr. O'Shaughnessy also stated that members are receiving a much higher yield than the market was giving for 10-year bonds. Mr. O'Shaughnessy reported that short-term interest rates are higher than those for 10-year bonds, which still points to the potential for a recession 12-18 months from now.

Questions: None

Resolution: None

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

Mr. O'Shaughnessy updated the board on SECURE 2.0 and how this impacts the State of Idaho plan. He reported that on December 29, 2022 President Biden signed into law the Consolidated Appropriations Act (CAA), which references SECURE 2.0. Mr. O'Shaughnessy addressed some of the provisions, their effective date, and whether or not it is required as a plan sponsor. Mr. O'Shaughnessy stated that effective after 2023, all qualified plan catch-up contributions greater than \$145,000 must be Roth contributions rather than pre-tax. Mr. O'Shaughnessy also stated that it is still debatable whether government employees will be captured in this provision. Mr. O'Shaughnessy invited an open discussion regarding whether or not the State of Idaho will allow members to make their catch-up contributions in a Roth form. Mr. O'Shaughnessy pointed out that currently the State of Idaho allows for catch-up contributions to be either pre-tax or in a Roth form, but that moving forward all contributions will be required to be in a Roth form.

Mr. O'Shaughnessy asked Mr. Steggell how Nationwide is looking at handling this provision. Mr. Steggell responded and said that Nationwide is asking the IRS for clarification on this provision

because there is still a lot of ambiguity in this piece of legislation. Mr. Steggell informed the board that as soon as Nationwide has more clarification on the legislation, they would pass the information on, but currently they do not have a clear answer.

Mr. Lamm added that the State of Idaho already has a Roth that people are contributing to, so the State of Idaho plan is already set up for whatever happens with the legislation. Mr. O'Shaughnessy agreed, reiterating that because the Roth is already in place, as soon as Nationwide gives the requisite guidance further discussions can be had about this provision.

Mr. O'Shaughnessy continued talking about provisions in place due to SECURE 2.0, and mentioned student loans. Mr. O'Shaughnessy asked Controller Woolf if there are any groups that are employer matched that would fall under this provision. Controller Woolf responded that the State doesn't, but Nationwide does with more local units. Mr. Lamm added that some of the pay centers that have adopted the State plan do have this option. Controller Woolf reiterated that the State itself does not. Mr. O'Shaughnessy continued by saying that this provision might have more nuances for those that do have an employer match. He provided an example of a woman who graduated college with a significant amount of student loan debt, but is unable to make her match into the retirement plan due to the increased monthly repayment of student loans. She would then be able to show her statement of her student loan repayment and then get credit for her contribution and receive her match. Mr. O'Shaughnessy pointed out that this is a low likelihood this would apply to the State of Idaho plan.

Mr. O'Shaughnessy continued with the provisions, stating that there is an increase in starting age for Required Minimum Distributions (RMDs) in an attempt to make it less of a tax burden for those in the 70-75 age range. Mr. O'Shaughnessy informed the Board that Nationwide would take care of this for the State of Idaho and is effective immediately. Mr. Steggell added that Nationwide has already updated their systems so that someone turning 73 this year would have an RMD but those that are not will have their RMD set to zero.

Mr. O'Shaughnessy talked about emergency savings accounts, and stated that those who encounter a financial emergency and need short-term money to overcome debt will have a couple different ways to access their money sitting in the 457 plan. Mr. O'Shaughnessy talked about a loan provision, where they can take money out of the plan and pay themselves back. He also pointed out that SageView is very leery of these types of withdrawals, and recommends putting this as a lower priority for the time being until there are further conversations about these savings accounts. Mr. O'Shaughnessy stated that there are a lot more provisions within SECURE 2.0, with some already implemented into the State of Idaho plan, but that there is still more to come on these provisions.

Mr. O'Shaughnessy talked about the Department of Labor, stating that they did receive some guidance on ESG (Environmental, Social, and Governance) factors. Mr. O'Shaughnessy stated that SageView has taken on quite a bit of ESG reporting in their documents as a lot of plan sponsors are wanting more information about them. Mr. O'Shaughnessy stated that if the board wanted more information about ESG factors that he would be happy to have more of a conversation about them, however he stated that SageView does not believe that ESG is a good basis to construct a retirement plan.

Questions: None

Mr. O'Shaughnessy resumed talking about the plan, reporting that it is in great shape. At the end of December 2022, Mr. O'Shaughnessy stated that the plan had about \$600 million in retirement assets, with 40% or \$240 million in the fixed accounts with Nationwide. Mr. O'Shaughnessy reiterated that these accounts have a fixed rate of around 3%, which has

allowed for them to be popular investments. Mr. O'Shaughnessy pointed out two of the more aggressive investments in the plan, American Century Ultra Fund and Fidelity Contrafund. Over time these funds have been very beneficial to plan members, but Mr. O'Shaughnessy reminded the board that 2022 was a difficult year for the large cap growth funds. He also stated that plan members have a wide variety of goals, and it is important to provide different types of high-quality funds so that these members can implement a good portfolio. Mr. O'Shaughnessy also pointed out the Vanguard Target Date Funds, which are becoming increasingly popular among investors.

Mr. O'Shaughnessy went into detail on the Idaho Retiree Fixed account, stating that over the last few years the value has been very consistent regardless of market volatility. Mr. O'Shaughnessy then talked about all of the other funds in the plan and how they compare with their peers. Mr. O'Shaughnessy used the Dodge & Cox fund as an example, stating that compared to the other large cap value peers it is performing in the top quartile. Mr. O'Shaughnessy again highlighted two funds, the American Century Ultra fund and Fidelity Contrafund. The American Century Ultra Fund did not perform well in 2022 but over the long term they are beating the benchmark and is still in the top decile compared to other large growth funds. Mr. O'Shaughnessy then switched to Fidelity Contrafund, which fared better in 2022 but is struggling to meet the benchmark over the last few years; however, it is still a top quartile performer. Mr. O'Shaughnessy stated that all of the other funds are still outperforming their peers as well. He also mentioned the Fidelity Contrafund K6, which has shown some convergence with the previous share class so he believes it is an issue that has resolved for now. Mr. O'Shaughnessy concluded with no recommended changes to the plan.

Questions: None

Resolution: None

6. Quarterly Board Report – John Steggell – Action Item

Controller Woolf introduced John Steggell and John Lamm with Nationwide to speak about the quarterly report. Mr. Steggell talked about the fourth quarter balance sheet, with the ending balance of \$589 million. He mentioned that there was almost \$14 million in market gain over the quarter with distributions and transfers subtracted out of the balance.

Mr. Steggell continued with the cash flow, stating that in the fourth quarter of 2022 there were \$6.9 million contributions and \$7.2 million distributions. He stated that historically the plan is cash flow positive, but was not in this fourth quarter. Mr. Lamm added that typically it is the RMDs (required minimum distributions) that cause that event to happen in the fourth quarter and reiterated that this is typical at the end of the year.

Mr. Steggell continued with the contributions breakdown, where the plan took in roughly \$5.5 million in new deferrals, \$1.5 million in transfers or rollovers, and paid out \$19,600 in incentives. Mr. Steggell talked about Mr. Lamm's team and that they do a good job talking with state employees about the plan and its benefits and strongly encourages those employees to rollover their money.

Mr. Steggell talked about the distribution breakdown dollar amount, where total lump sum, partial lump sum, and systematic withdrawals are pretty evenly spread out, with \$5,500 paid out due to hardships. He pointed out that over the last four quarters, the payout has been very low, totaling around \$12,000. Mr. Steggell reported \$11.1 million in total distributions during the fourth quarter. Mr. Steggell also reported that most of the transactions are systematic withdrawals, which are state employees that have separated from the state and are receiving a recurring check.

Mr. Steggell stated there were 35 new loans in the fourth quarter, totaling \$427,786 loans. The new loan average for the quarter was \$12,222. Mr. Steggell also stated that the loan average has been pretty consistent, with the last three quarters almost identical. Mr. Steggell mentioned that he has been seeing this trend with other plans, where the average loan amount is fairly small, around \$11,000-\$13,000. Mr. Steggell continued by saying there were 34 loans paid off in the fourth quarter and 495 total loans balancing at a little over \$3.2 million.

Mr. Steggell stated that there were 10,292 total participants in the fourth quarter, with 4,489 actively deferring, 4,428 inactive, and 1,375 in payout. Mr. Steggell reminded the board that the number of participants go up as the participant age goes up, with the highest count in ages 60 & up of 3,879.

Secretary of State McGrane added that state employees are typically older, and wondered if the population already leaned towards higher numbers of older participants. Controller Woolf stated that the average age of a state employee is 47, and Mr. Lamm agreed with Secretary of State McGrane's observation. Mr. Steggell thanked both Secretary of State McGrane and Controller Woolf for their questions and comments.

Mr. Steggell continued by talking about average account balance, and the plan average balance for the fourth quarter was \$56,827, slightly higher than the third quarter. When tracking the average account balance by age, Mr. Steggell reported that the balance jumps significantly from ages 50-59 to just under \$50,000 and then from ages 60 & over the average jumps to almost \$100,000. The average deferral for each participant in the state is roughly \$8,545. Mr. Steggell stated that Nationwide is hoping this average will grow, especially with the IRS recently increasing the limits to \$2,000 more per year per participant. Mr. Steggell then talked about Roth activity in the fourth quarter, with \$30.4 million in Roth assets and 2,917 total participants enrolled.

Mr. Steggell turned the presentation over to Mr. Lamm to talk about the quarterly onsite summary. Mr. Lamm informed the board that the summary shows the activity from all of the retirement specialists. He reported that in the fourth quarter there were 517 individual meetings (which is lower than normal due to the holidays), 415 virtual meetings, 96 in-person meetings, and 20 group meetings with 276 in attendance. Mr. Lamm also reported that they are going to be doing a new employee orientation every month and will invite every state employee and pay center to participate in those meetings. Mr. Lamm stated that Mr. Knudson is able to meet with those individuals that are getting close to their retirement, and in the fourth quarter he met with 114 people virtually and 29 in person.

Questions: None

Mr. Steggell continued with year-to-date deferral actions, with double the amount of increases to decreases, 111 restarts, and 588 new participants enrolled into the plan. Mr. Steggell then talked about the incentive program, and reported that \$19,600 was paid out in bonuses with 126 new participants in the fourth quarter. Mr. Steggell also reported 18,783 total logins on the participant website. For the app itself, Mr. Steggell reported 210 participants logging into the My Retirement app with 1,150 total logins. Mr. Steggell stated that Nationwide strongly encourages people to download the app as it has full functionality; everything that can be done on the website can also be completed in the app itself. Mr. Steggell said that 57 completed exchanges, 185 changed their deferrals, and 59 changed allocations during the fourth quarter.

Mr. Steggell reported 728 phone calls received at the call center in the fourth quarter. 68% of the phone calls were answered within 20 seconds and 26 calls were abandoned, which were folks that hung up. Mr. Steggell also stated that there is an option where a participant can type

in a callback number and Nationwide can return their phone call. Controller Woolf stated that he is glad to see the number of calls abandoned has gone down significantly. Mr. Steggell agreed, and said that Nationwide is fully staffed at their call centers and the call volumes are down, therefore the ratios look really good.

Mr. Steggell talked about revenues reconciliation, where throughout the fourth quarter there were a few deposits of excess revenue and Savers Credit withdrawals. Mr. Steggell reported that the ending balance as of December 31, 2022 was \$261,207.13.

Mr. Steggell asked Mr. Lamm if he had any comments about the pay centers. Mr. Lamm stated that during the fourth quarter Nationwide was up to 101 pay centers that joined the state 457 plan and has since added 3 new ones: Joint School District 171 in Clearwater County, City of Hailey, and Capital City Development. Mr. Lamm stated that most of the counties have joined the 457 plan, but not all of them. Secretary of State McGrane asked Mr. Lamm if he sees the pay centers joining the plan leaning more towards the larger jurisdictions in the state. Mr. Lamm replied that they are all across the board, and used the example of Capital City Development who has 12 people total working there. Secretary of State McGrane asked about West Ada and Boise School Districts. Mr. Lamm responded that Boise School District is on the state plan, but West Ada is not. Ms. Weaver asked if there was a cost for the pay centers to join, and Mr. Lamm said there is not, that employers would just make it available for their employees to join.

Mr. Steggell then reported on Schwab and the self-directed brokerage account option. Mr. Steggell reminded the board that Nationwide retirement specialists are not trained to have a discussion about Schwab, but they can let participants know that moving money from Nationwide over to Schwab is an option. Mr. Steggell reported that there are 33 Schwab accounts with \$4.4 million in assets. Mr. Steggell stated that Schwab shares the top ten mutual fund holdings, top ten fund families, and top ten equities and ETFs in their report to Nationwide. He explained that this is a breakdown of what state employees are purchasing when the money moves into Schwab. Mr. Lamm commented that there have been a few people who inquired about the self-directed option and a few have moved money from the fixed account to buy a one-year CD account. Mr. Steggell added that fluctuating interest rates is something participants will have to keep an eye on if they move their money over to the self-directed option so they are not stuck if interest rates plummet like they have in the past.

Resolution: None

7. Introduce new Retirement Specialist Laura Leigh Brewster

Controller Woolf asked Mr. Lamm to introduce the newest member of the Nationwide retirement specialists' team, Laura Leigh Brewster. Mr. Lamm introduced Ms. Brewster, and stated that she will be focusing on Pocatello, Idaho Falls, and a portion of Ada County as well but working out towards the Snake River Plain and clear to the Montana border. Mr. Lamm asked Ms. Brewster to share more about herself. Ms. Brewster shared that she moved to Idaho 7 years ago with her daughter. Ms. Brewster also shared that she started in the industry about 5 years ago at Edward Jones, but was always interested in the retirement planning side. She also stated that she moved to Morgan Stanley for a couple years before coming to Nationwide. Mr. Lamm stated that with her education background that she will be an added resource to potentially work with the universities more.

8. My Investment Planner (MIP) Presentation – Jared Williams – Action Item

Mr. Lamm introduced Jared Williams to go over what the retirement specialists do when they meet with people who are deciding where they want to put their money in the plan. Mr. Williams started by saying the first challenge is getting into the entities that Nationwide works with and

the second challenge is how to help facilitate the process of preparing for retirement. Mr. Williams talked about creating a diversified portfolio for participants where Nationwide does a lot of the work for them and makes sure it is age appropriate. Mr. Williams reminded the Board that there is a balance between stock market risk and inflation risk, which is why Nationwide is there to help with the education piece.

Mr. Williams showed the board the tools and calculators on the website for those who want to make informed decisions about their portfolio. One of the tools is called My Investment Planner. Mr. Williams stated that this planner is used to determine an individual's risk tolerance and time horizon. Mr. Williams showed an example of an individual over 60 years old who would be taking cash distributions from their account in less than 5 years. Mr. Williams answered the rest of the questions in a conservative manner to display the functionality of this tool. Mr. Williams pointed out that the planner suggested a moderate portfolio model despite answering the questions conservatively and in a more mature age bracket. Mr. Williams explained that those who have access to the PERSI base plan already show a conservative portion of their investment strategy, which would allow a state employee to be more aggressive with their portfolio. Mr. Williams stated that this would be beneficial for outpacing inflation rates because they already have the pension in place.

Once the My Investment Planner reveals the scorecard for the suggested portfolio diversification, Mr. Williams stated that it will also bring up the available funds to see performance in each of the funds in the plan with their 1, 3, and 5-year returns. Mr. Williams stated that if an individual wanted to create a diversified portfolio independently, this tool allows them to do that. Mr. Lamm reiterated that this strategy bumps up the list of investment options so an individual can click on whichever funds they want to invest in and as soon as they hit submit, their portfolio is completed.

Controller Woolf asked if Nationwide would use that same tool for someone who is already enrolled into the plan. Mr. Lamm stated that Nationwide uses this tool with everyone that they meet with. Controller Woolf thanked Nationwide for the clarification.

Resolution: None

9. Recap – Action Items

- a) Next board meeting will be held May 22, 2023 at 1:00 pm.

The meeting adjourned at 2:29 p.m.