Oregon Retirement Savings Board
MINUTES
December 14, 2015

Board members present:
Treasurer Ted Wheeler, Chair
Kara Backus
Senator Lee Beyer
Kevin Jensen
Representative Tobias Read
Juanita Santana
Cory Streisinger

Oregon State Treasury staff present:
Lisa Massena, Executive Director, ORSP
Kristin Dennis, Senior Policy Advisor
Tom Rinehart, Chief of Staff
Missy Simpson, Executive Assistant
James Sinks, Communications Director

The ORSB meeting was called to order at 1:03 pm by Treasurer Wheeler, Chair.

Agenda Item 1 – Approval of the minutes of the November 4, 2015 meeting of the Oregon Retirement Savings Board (ACTION ITEM)

Treasurer Wheeler asked the board if they had any comments; there were none.

Board Action
Motion to approve the minutes of the November 4, 2015 meeting of the Oregon Retirement Savings Board.

MOTION:	Juanita Santana	SECONDED:	Kara Backus
ACTION	Motion Passes		

Agenda Item 2 – Plan and Program Design – Current Research and Experience (INFORMATION ITEM)

a. David John, Senior Strategic Policy Advisor, AARP Public Policy Institute:

David John congratulated the Board on recognizing a problem and taking steps to solve it. Oregon is in a situation where roughly half the workforce does not have the ability to save for retirement. Oregon alone, there are about 630,000 people who are going to be able to save through the Oregon Retirement Savings Plan that don't have the ability to save right now. 57% are the youngest people, but 40% are between 55-64 years old. How Oregon deals with this is going to be crucial. First, the plan has to work. Start simple and add features as the Board goes along. A full-fledged retirement savings program with all the bells and whistles will have hundreds of tiny glitches that are only discovered as time goes on. Oregon needs to start with a simple program and add features as the plan goes along. Automatic enrollment is crucial. Participation rates go up with automatic enrollment.

Treasurer Wheeler wanted to know how we refute potential criticism that automatic enrollment might be considered trickery.

Mr. John explained that plan structure matters a great deal. The traditional way of structuring a retirement savings program where the individual has to sit down and decide when they are going to save, how much, and what they will save is a guarantee of failure. Starting to save early is key. If you don't use auto enrollment, people won't know what to do and will delay.

The next step is how you structure your statement. There is technology out there and ready to be used.

Cory Streisinger wanted to know if there were any quarterly statement structures Mr. John would recommend for Board review. Mr. John agreed to consider.

Treasurer Wheeler wanted Mr. John to be more specific about what plan features the Board should be aiming for when working to implement the plan.

Mr. John explained that the market is changing. What is available today is going to change in the next six months to a year. A significant number of retirees are going to need some sort of guaranteed retirement income or stable retirement income. Part could come from annuity or longevity insurance and another part could come from a phased withdrawal plan. The AARP is finding out that most retirees need three sources for retirement. Their first source would be social security which would handle all of the annuity guaranteed income. Retirees would then need a second source which would come from their retirement savings. And finally, a third source for their emergencies.

Mr. John explained that making sure the individual user's experience is a positive one and structuring the sign-up mechanism is key. Making sure the employee's money gets easily from the employer to the Fund and that it is invested properly will help make the plan successful.

Treasurer Wheeler thanked Mr. John for his presentation and introduced the next speaker.

b. John Chalmers, Abbott Keller Professor of Finance, Lundquist College of Business, University of Oregon

John Chalmers thanked the Board and Legislators for taking on the issue of retirement and noted that the nation would be watching to see how the state of Oregon will take care of its citizens. Mr. Chalmers began his presentation, "Promoting Lifelong Financial Security," and emphasized from the Treasury website that 600,000 Oregonians lack access to retirement savings which is a problem. Mr. Chalmers walked the Board through his slides of the finance life cycle which is education, career, and then retirement.

- Education: Investment in people helps people take care of themselves.
- Career: How are we going to get people to save? We need to make savings a habit. Defaults with opt-out provisions will help people start saving. Investing the savings well, like participating in the stock market at an early stage has proven successful. A low –fee target date fund is going to be the solution.

Mr. Chalmers walked the Board through a paper co-authored with Jonathan Reuter at Boston College where they studied retirement plan investment choices and discussed their findings. Findings in this research indicated that individuals receiving advice earned lower returns than individuals not receiving advice, or individuals using the default investment option, when that option was a balanced fund and not a money market fund. Mr. Chalmers noted that in this example people who would have used an advisor were most likely to take the default investment, which substituted for the advice.

Treasurer Wheeler asked about certain polling indicating that people's fear of running out of money is greater than worrying about not enjoying retirement by spending enough. Are these equivalent?

Mr. Chalmers explained that it is not. You have to scale them properly. Economists call this consumption smoothing. If we have smooth consumption, that is going to provide us with higher levels of happiness in our lifetime.

Treasurer Wheeler noted that one could argue that the purpose of this board is to make sure people don't run out of money and become dependent on government social services, rather than focusing on the broader interest in people enjoying retirement.

Mr. Chalmers explained that enjoying retirement is the wrong word to use. The Board needs to think of it in terms of living in retirement, housing, feeding yourself good food, and having enough money to go to the movies, instead of thinking of it as something extravagant.

Another thing the Board needs to look at is annuities. If you take some of your nest egg and you purchase a lifetime annuity, you can reduce those risks because annuities provide monthly payments for life. It provides you with a higher return while you are living, based on mortality premium, giving up the money when you pass, you get additional return because you have been pooled together with another group of people.

Treasurer Wheeler asked what sources Mr. Chalmers would recommend the Board look at to evaluate annuity concepts or products.

Mr. Chalmers told the Treasurer that the Board will be talking to reputable life insurance companies if the Board is going to get private annuities. Mr. Chalmers is not an expert in picking them. The Board will want to get bids and gather information about the provider's and the prices they will charge. Then the Board will need to compare from provider to provider.

Separately, Mr. Chalmers noted that he is beginning research on how to message savings plans and investment.

Juanita Santana asked if the research would be defining groups like minority populations, and including non-state employees. The study needs to look at a broader population. The study needs to look at the population who does not already have a savings plan.
Mr. Chalmers explained that right now the study is looking at entities that have the Oregon Savings Growth Plan because that would include not only state employees, but also include a larger swath of society working jobs. Mr. Chalmers would love to include an experiment with non-state employees if the Board could help figure out how to get in touch with that group.

c. Nari Rhee, PhD, Manager, Retirement Security Program, Center for Labor Research and Education, Institute for Research on Labor and Employment, UC Berkeley

Treasurer Wheeler introduced Nari Rhee from UC Berkeley.

Nari Rhee started up the retirement security program at UC Berkeley Labor Center back in 2010 in response to labor unions saying the social security issues are getting pretty dire can you step in. California focused on the private sector retirement issue. Around that time, Senator Kevin Deleon was working on another round of automatic savings program and it passed in 2012.

Ms. Rhee gave a background of the California Secure Choice which is a state auto-IRA initiative. The key provisions are that the plan is mandatory for private employers, with auto-enrollment for employees, employees contribute through payroll deduction, the Board sets default contribution rate, and the default investment vehicle is selected by the Board. The statute is silent on total fees, but one percent is assumed cap, and there is stakeholder interest in lifetime income option. Ms. Rhee walked the Board through her slides, giving the eligible population, key market research findings and implications for the plan design, and key focus group findings. What was noted on the key findings is that auto-enrollment and payroll deduction were popular with respondents as an easy way to save. Low-income groups distrusted the financial institutions and government. There was a low level of financial literacy, and a strong risk aversion. Most workers preferred safe investments in the focus group discussions. Respondents were shown two investment fund options for the program. Twice as many preferred balanced fund of a money market fund. The program design issues were auto-enrollment and recordkeeping logistics, interface between state agencies and third party administrator, and enforcement.

Representative Read asked if the recordkeeper in this scenario was the same as the third-party administrator and whether the conclusion would be to have them separate or the same.

Ms. Rhee wanted to make the distinction between the two. There are two key functions, one is the investment management, and two is maintaining the accounts. That is a recordkeeper function. They can be integrated or they might be separated, it depends on what makes sense. The Board will need to think about whether Oregon and their financial requirements would want the recordkeeper and third-party administrator to be separate or not. In California, it does not make sense.

Juanita Santana wanted examples of enforcement features.

Ms. Rhee went over her slides of “Enforcement” and DOL’s requirements and their enforcement budget.

Lisa Massena asked about keeping assets in the program and what California thinks about that.

Ms. Rhee explained that California wanted to give participants a pause before they pull their money out. It’s not practical to have a whole vetting process for hardship withdrawals. California wanted employees to self-certify that there is some form of hardship before they pull the money out. The DOL guidelines seem to be saying absolutely no restrictions on early withdrawals. That is not a good position and California's lawyers don't agree so in terms of the response to the DOL, that is one of the things California will be asking for is more flexibility on that front.

In advance of the break, the AARP presented Treasurer Wheeler, Representative Tobias Read, and Senator Lee Beyer each with the National 2015 Super Saver Award in recognition for seeing a retirement problem and taking action to resolve that problem.

Break

d. Geoff Sanzenbacher, Research Economist, and Anek Belbase, Project Manager, Center for Retirement Research, Boston College

Treasurer Wheeler introduced Geoff Sanzenbacher and Anek Belbase from Boston College.

Geoff Sanzenbacher discussed his slide presentation and lessons that were learned from Connecticut since their legislation is similar to Oregon. Connecticut passed legislation in June 2014 to provide a retirement savings plan to uncovered workers. The legislation required a feasibility study by December of 2015, and the Advisory Board contracted with CRR to conduct the market analysis and provide consulting services. The feasibility study consists of market, financial, and legal analysis. Connecticut's study shows their program to be feasible. Mr. Sanzenbacher explained Connecticut's market analysis and answered questions from the Board.

Cory Streisinger wanted to know if Connecticut survey respondents were offered a choice of opting out of escalation and Mr. Sanzenbacher informed her that they were not.

Treasurer Wheeler wanted to know how auto escalation was described. Mr. Sanzenbacher explained that it was similar to the base case. 6 percent of your pay, or $60 per $1,000 would be deducted and deposited into your account and each year from now for the next four years would increase by one percent until you are contributing ten percent.

Kevin Jensen wanted clarification on the financial analysis and the timeline for repaying the startup costs and the fees.

Mr. Sanzenbacher explained that Mercer and Oliver Wyman were in charge of that analysis. They looked at the existing 529 plans since they are similar in terms of set-up, and tried to get a sense of how much those programs cost in terms of basis points for assets. They assumed their default assumption would be six percent of each person's salaries with an opt-out rate of 18 percent, and based on median income in Connecticut for uncovered workers.

Anek Belbase explained that they have not gone through and thought as far as California in figuring out how to get payroll system for thousands of employers validated on a weekly basis going through a recordkeeper. They have used many assumptions from the 529 plan where a lot of people make deposits directly from their bank account. The timeframe is about three months away.

Treasurer Wheeler moved the public comment to take place after the presentations in case there were any questions for the presenters to answer.

Kate Crowther – Director of government relations for Ubiquity Retirement Savings, representing a record-keeper. I will make myself available to all of you and to Lisa to answer questions regarding communication between systems, departments, payroll, partnerships, the ways that record-keepers currently interact in my company in particular with investment managers and things of that nature. We would be happy to come back and offer a presentation and answer any specific questions. Philosophically, my company is a flat fee service investment agnostic company which specializes in zero balance accounts so we see these initiatives as a really great partner to where we began as a company 16 years ago. We are largely in favor of all these initiatives throughout the nation and would like to see greater access to retirement security for all.

Joseph Burch, third-party administration, and I have a third party practice here in the Pacific Northwest. We have about 2300 plans around the country. The numbers that were mentioned here; the problem is between minorities and low-income wagers. I don't see the program that the state is presenting will solve the problem. The opt-out rates that were presented are the same thing we see in the private sector. It seems like the state is trying to accomplish something that the private sector would love to do, but is constrained by the rules under ERISA. How will state avoid being subject to ERISA?

Treasurer Wheeler informed Mr. Burch that this is his opportunity to use the microphone to state his opinion. The purpose of this board is to engage and answer these questions. It's premature to say that we answered the ERISA question, but assured Mr. Burch that during the legislative process this was front and center, and the Board knows there are substantial legal questions that need to be resolved prior to the plan being launched.

Mr. Burch asked if the state explored the three options that the DOL has allowed to be substantiated by ERISA particularly the ones that the State of Washington is looking at. Also curious about the burden a small employer would get. What were the sizes of the companies that the studies used? If you give the ability to opt-out of a plan, the opt-out rates are going to go up. If we give them too much information about opting out, that is when they are going to opt-out.

Nari Rhee explained what she meant about the opt-out information.

Treasurer Wheeler informed Mr. Burch that the Board is required to do our own market analysis tailored to Oregon. Oregon is a much smaller employer state. The ERISA piece is clarified. Education is included in legislation.

Mr. Burch asked if the state would be following the IRA model and limiting the contributions or will the state be using a 415 model with higher contribution rates?

Treasurer Wheeler informed him that that would be determined as part of the Board's process for Plan Design.

Agenda Item 3 – Policy Update – Department of Labor's Proposed Ruling Issued November 2015 (INFORMATION ITEM)

Kristin Dennis recently received the proposed rules from the Department of Labor, specifically for state sponsored auto-IRA retirement plans. She explained that the objective of these rules is to provide a safe harbor and to reduce the risk of state programs like Oregon's being pre-empted if they were to be challenged. These rules will provide clarity on how this would fit in, in relation to ERISA, if we were to do an IRA program which is the direction Oregon will likely go. The Board will need to respond to these proposed rules by January 19, 2016, so Ms. Dennis will be looking for feedback from the Board. For the purposes of ERISA, an IRA will not be considered an employee benefit pension plan so therefore ERISA would not apply provided the following requirements:

- The plan would have to be established by state pursuant to state law;

- The plan would be administered by the state which is responsible for investing the employee savings or selecting investment alternatives for employees to choose;
- The state assumes responsibility for the secure payroll deduction and employee savings;
- The state adopts measures to ensure that employees are notified of their rights and creates a mechanism that enforces those rights;
- Participation is voluntary for employees;
- The program does not require an employee retained portion of contribution or earnings in his or her IRA and does not otherwise impose any restrictions or withdrawals or impose any cost or penalty on transfers or roll overs;
- All rights of employers are enforceable only by the employee or authorized representative or by the state;
- Involvement of the employer is limited to collecting employee contributions through payroll deductions and remitting them to the program;
- Provide notice to employees and maintain records regarding employers collection and remittance of payments;
- Provide information to the state necessary to facilitate operation of the program and distribute program information to employees from state and permit the state to publicize the program to employees;
- Employer contribution contributes no funds to the program or any monetary incentive – no bonus to encourage employees to go into the program;
- Employer's participation in the program is required by state law;
- Employer has no discretionary authority control or responsibility under the program;
- Employer receives no direct or indirect consideration other than reimbursement of actual cost or required activity;
- The program may be directed towards employees who are not already eligible for some other workplace savings arrangement;
- May utilize one or more service or investment providers to operate and administer the program provided that the state maintains full responsibility for the operation and administration of the program;
- The program may utilize auto enroll and auto escalation features with adequate notice and opt out provision.

Ms. Dennis pointed out that one of the things included in comments is to have clarity around hardship exemptions.

Senator Beyer wanted to make sure that DOJ looked at these requirements and any feedback that is given before we send the information to the Department of Labor.

Juanita Santana asked if there would be enough time to send the feedback back to the board with the collected comments before the requirements and comments were sent to DOL. Ms. Dennis noted that she would give the Board a draft by the end of the year.

Cory Streisinger wanted to make sure that the hardship exemption was not case by case.

Agenda Item 4 – Executive Director's Update (INFORMATION ITEM)

Lisa Massena gave a brief overview regarding the proposed draft work plan for 2016 and what the timing and work would look like. She will cover more on the work plan at the January 5th meeting. Ms.

Massena also wanted to note to the Board that work is being started on the RFP for the market analysis and feasibility. A draft RFP will be circulated to members before the end of the year.

Agenda Item 5 – Board-led Working Groups – Proposal (ACTION ITEM)

Treasurer Wheeler briefly discussed the board-led working groups and who would be participating on each level:

Plan Design – Cory Streisinger will be the lead and Kara Backus will be the member
Program Design – Kevin Jensen will be the lead and Kara Backus and Senator Beyer will be the members
Financial Literacy – Juanita Santana will be the lead and Cory Streisinger will be the member
Outreach – Representative Read will be the lead and Juanita Santana will be the member

Treasurer Wheeler welcomed anyone else who would like to be involved with these working groups to please join in.

MOTION:	Treasurer Wheeler
ACTION:	Motion Passes

Agenda Item 6 – Other Business (INFORMATION ITEM)

None

Agenda Item 7 – Next Meeting (INFORMATION ITEM)

January 5, 2016

ADJOURNED at 3:03 pm