

ILLINOIS SECURE CHOICE BOARD

**Meeting of Friday, March 4, 2016
James R. Thompson Center
100 West Randolph, Room 16-504, Chicago, Illinois**

MEETING MINUTES

The March 4, 2016 meeting of the Illinois Secure Choice Board (Board) was called to order at 2:00 p.m. with the presence of a quorum.

BOARD MEMBERS PRESENT

Michael Frerichs, Chair
Illinois State Treasurer

Josh Potts (via videoconference)
Designee for State Comptroller Leslie Munger

Kim Fowler
Designee for the Governor's Office of Management and Budget

Miriam Martinez
Office of the City Treasurer - Chief Investment Officer

David Marzahl
Center for Economic Progress – President & CEO

David Rappaport
Rappaport Reiches Capital Management, LLC - Co-Managing Partner

John Rauschenberger
Technology & Management Association – Executive Vice-President and General Manager

TREASURER'S STAFF

Courtney Eccles, *Invest in Illinois Program Manager*
Illinois State Treasurer's Office

Julian Federle, *Chief Policy and Programs Officer*
Illinois State Treasurer's Office

Rodrigo Garcia, *Chief Investment Officer*
Illinois State Treasurer's Office

Nikki Giancola, *Executive Assistant to the Treasurer & Deputy Treasurer*

Illinois State Treasurer's Office

*Keith Horton, General Counsel
Illinois State Treasurer's Office*

*Allen Mayer, Deputy General Counsel (via videoconference)
Illinois State Treasurer's Office*

*Sandi Raphael, Assistant General Counsel
Illinois State Treasurer's Office*

*Greg Rivara, Press Secretary
Illinois State Treasurer's Office*

*Jay Rowell, Deputy Treasurer
Illinois State Treasurer's Office*

*Catherine Shannon, Legislative Director (via videoconference)
Illinois State Treasurer's Office*

APPROVAL OF DECEMBER BOARD MEETING MINUTES

Board members reviewed the December 11, 2015 and December 16, 2015 Board Meeting Minutes, which were provided in advance of the meeting. There was no discussion and no changes were made.

Mr. Rauschenberger made a motion to approve the December 11, 2015 Board Meeting Minutes. Ms. Martinez seconded the motion. The motion was unanimously approved. Ms. Fowler abstained from the vote as she was not present at the meeting.

Mr. Marzahl made a motion to approve the December 16, 2015 Board Meeting Minutes. Mr. Rauschenberger seconded the motion. The motion was unanimously approved. Ms. Fowler abstained from the vote as she was not present at the meeting.

OLD BUSINESS

There Board did not raise any old business.

SECURE CHOICE OUTREACH

Treasurer Frerichs asked his staff to provide an update to the Board on outreach conducted between the last Board meeting and today. Ms. Eccles provided the Board with an update on conversations with the Illinois Department of Employment Security (IDES) and the Illinois

Department of Revenue (IDOR). Staff has been working with the two agencies to establish the best methods for determining employer participation and facilitating employee enrollment into the Secure Choice Program (Program) while minimizing the burden on employers.

Jim Nichelson from IDOR provided an overview of the meetings held with IDOR staff and the Treasurer's staff to discuss, not only IDOR's role in enforcement of the Program once it's up and running, but also the best ways to let employers know about the Program in advance. To the extent that IDOR is able to assist in that effort, they are more than willing to work with the Board and the Treasurer's Office on the entire process and not just the enrollment aspect.

Ms. Eccles went on to explain that partnering with the agencies will be necessary to determine which employers would need to comply with Secure Choice, as well as to conduct advance outreach with employers and facilitate the enrollment of employees. She noted that there will be legislative amendments related to data sharing added to the current Secure Choice bill (SB2420). Mr. Federle reiterated that this data sharing would help achieve the goal of minimizing the footprint on employers by using pre-existing infrastructures to prevent employers from having to fill out a new form or report the same information to a new entity.

Mr. Federle discussed conversations with key stakeholders at the national level, including other states, exploring similar program designs, payroll providers, record keepers, and program managers who are very interested in how programs will be implemented. These stakeholders are not only asking questions about the Program but also bringing their concerns and sharing their recommendations. This information will be useful to the Board and staff as Program design decisions are made.

Mr. Federle provided a brief update on outreach and conversations with the Obama Administration and the US Department of Labor (US DOL). He noted that the US DOL is currently reviewing comments that were submitted on the proposed rule. The vast majority of comments were positive, and US DOL does not envision the final rule being substantially different than the proposed rule. The final rule is expected to be released in the summer or fall of 2016. Ms. Martinez asked if there was any question about whether part-time employees would be covered by the Program. Ms. Eccles responded that the Board has the ultimate decision, but the legislative intent was to cover part-time employees who work for employers participating in the Program. Clarity will need to be provided in the administrative rules.

Finally, Ms. Eccles discussed the Board's desire to begin engaging with the business community in Illinois. She noted some of the one-on-one meetings in which Board members discussed creating a plan for outreach in advance of Program rollout. Ms. Eccles noted that staff planned to put together a strategic outreach plan and also asked if the Board has an interest in creating an outreach subcommittee. Mr. Rauschenberger mentioned his position with the Technology and

Manufacturing Association and said he has already cleared it with his team to host a large meeting, whether it's HR staff or others. He said they would be happy to host and facilitate a broader meeting. Additionally, Mr. Rauschenberger shared his willingness to participate on an outreach subcommittee. Mr. Marzahl and Treasurer Frerichs also shared their willingness to serve on the subcommittee.

Mr. Marzahl shared his desire to ensure that part-time workers are covered by the Program, given the number of low-income families who work multiple part-time jobs, and asked if there was a timeline for the Joint Committee on Administrative Rules (JCAR) process. Mr. Federle said the staff planned to bring a number of considerations to the Board in advance of finalizing a draft of the administrative rules. The Board also engaged in a brief discussion about how to ensure part-time workers do not end up with multiple accounts and other due diligence aspects related to enrolling participants. Mr. Rappaport also noted that the Board and staff would need to consider how to address participants who might have incomes higher than the income limit for Roth IRA contributions.

Secure Choice Legislation

Ms. Shannon provided a brief update on SB2420, sponsored by Senator Biss. The legislation passed out of the Senate Executive Committee 13-2 and is now on third reading. The legislation makes three minor, technical changes to the Illinois Secure Choice Savings Program Act (Act). *(A fact sheet on the bill was provided in the Board packet.)* Ms. Shannon noted that staff is working with IDES and IDOR to add an amendment that would allow for data sharing. The Board had no additional questions.

Joint Committee on Administrative Rules

Mr. Mayer provided an update on the JCAR process. The Act gives the Board and the Treasurer's Office rulemaking authority for implementation, and IDOR has its own rulemaking authority for enforcement. Once drafted, the rules will be submitted to JCAR for pre-filing review and then filed for First Notice and Second Notice. Mr. Mayer noted that a public hearing could take place, which would allow the Board and Treasurer's Office to openly discuss features of the proposed rules with the public and stakeholders.

Ms. Fowler asked when the Board expects to have an initial filing. Mr. Mayer responded that staff is in the process of drafting rules, using the Deferred Compensation rules as a starting point. Staff is compiling a list of questions/issues to raise with the Board and stated that draft rules would be presented to the Board before being submitted for pre-filing review.

There was no further discussion on JCAR.

Aspen Institute Forum

Treasurer Frerichs introduced Jeremy Smith from the Aspen Institute (Aspen) to discuss the April 25th Secure Choice Forum in more detail. Mr. Smith provided background information on the Aspen Institute and its Financial Security Program. He explained that the Secure Choice Forum is intended to bring together stakeholders, industry experts, and the Board to stimulate dialogue and support the Board's efforts to make implementation as successful as possible. Aspen did a similar event for the California Secure Choice Board and is talking to other states about future events.

Mr. Rappaport asked if there are any materials or reports that Board members should read in advance of the event. Mr. Smith said Aspen would be happy to put together a packet of materials in advance.

There were no additional questions. Treasurer Frerichs thanked Mr. Smith and commented that Board members were looking forward to the April event.

Investment Advisor Discussion

Mr. Rowell walked through the ongoing discussion around the creation of investment principles as a useful guide for the Board. He recommended that the Board schedule an investment subcommittee meeting to finalize a set of principles and discuss how to proceed with an investment consultant and creation of an investment policy. He suggested that the subcommittee could then bring something before the Board for approval.

Mr. Rowell also noted that the investment subcommittee should determine substantive changes to what the Board is seeking in terms of an investment consultant to better reflect what the Board is looking for and provide clear guidance for potential respondents. He noted that all Board members can attend the subcommittee meeting and suggested broadening the subcommittee from three to five members to allow for individual conversations among members. Mr. Rauschenberger and Ms. Fowler both asked to join the subcommittee.

Ms. Fowler asked that the Board or subcommittee also explore the option of working with the Illinois State Board of Investments (ISBI) to manage the Program's investments. She noted ISBI's experience with other state retirement funds and that it might be a good option for the Program. Ms. Fowler suggested that a good first step would be for staff to ask ISBI to present to the Board or subcommittee. Mr. Potts noted that the Comptroller is also interested in utilizing some of ISBI's resources. Mr. Rowell said that staff could certainly facilitate a conversation on

this topic at the investment subcommittee meeting and would ask legal staff to look at the Secure Choice statute.

Mr. Marzahl clarified that one option is to leverage ISBI's existing infrastructure and resources and a second option is to potentially have ISBI serve on the investment subcommittee. He wanted clarity on whether we were turning over the Board's responsibilities to ISBI. Ms. Fowler explained that she wanted to explore contracting with ISBI to have them serve as the investment manager of the funds. It was agreed that all of these ideas could be discussed at the next investment subcommittee meeting.

New Business

Mr. Marzahl asked about where the Board is on the implementation timeline, based on recent conversations and next steps. Ms. Eccles offered to update the timeline and circulate it to Board members in advance of the next Board meeting.

Mr. Horton discussed the potential need for a "no-action" letter from the Securities and Exchange Commission (SEC) and an opportunity to partner with other states on legal services to procure the letter. California has retained a law firm and is interested in splitting costs with Illinois and Oregon. Mr. Horton noted that the cost for Illinois would be a maximum of \$35,000 in shared costs in addition to Illinois-specific costs, and the Treasurer's Office would cover the cost. Mr. Rappaport asked about the likelihood of US DOL working with the SEC on these state programs to issue a "blanket letter" for all states. Mr. Horton agreed that the current administration has been friendly to state efforts, but the SEC is its own entity and administrations change, so getting the letter is probably still the safest route. Ms. Fowler stated that if the funding issue can be addressed, she supports efforts to secure a no-action letter. Treasurer Frerichs confirmed that his Office could cover the costs.

Mr. Horton also noted that while the US DOL has been friendly to states up to this point, there are still likely to be ERISA-related issues that arise throughout implementation. He recommended that the Board secure counsel to assist with ERISA issues on an as-needed basis. Treasurer Frerichs added that while the final rule will hopefully eliminate a number of legal concerns, it is likely that certain legal issues or questions will remain and securing counsel in advance would be beneficial to the Board. Ms. Fowler asked if there was an estimate for costs related to preventative advisory work short of a lawsuit. Mr. Horton replied that he anticipated a small contract, perhaps \$25K-\$30K over a year, and noted that it would not necessarily be the same firm that California secured for the SEC no-action letter.

The Board voiced support for the Treasurer's legal staff to move forward on both contacts.

Public Comment

There was no public comment.

Meeting Calendar

The Treasurer noted that the Board has already scheduled its quarterly meeting but asked if Board members would be interested in holding more frequent meetings. There was general consensus to schedule additional meetings. Mr. Rauschenberger suggested scheduling monthly meetings and canceling them if necessary. Mr. Rowell stated that staff would provide potential dates to Board members for additional meetings. Ms. Martinez also pointed out that Board members could meet later in the day.

Mr. Marzahl noted that a number of the next steps will be moved forward by the subcommittee and so perhaps the Board should focus on scheduling the subcommittee meeting and another full Board meeting before the April event, and then moving into a more regular schedule.

Adjournment

With no further business, Treasurer Frerichs thanked the Board for its work and adjourned the meeting at 3:40 p.m.