PERSI
Public Employee Retirement System of Idaho

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street, Boise, Idaho 83702

MINUTES OF MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met in-person and via Zoom at 12:00 p.m., February 17, 2021. The following members were present:

Jeff Cilek
Joy Fisher
Park Price
Darin DeAngeli

Executive Director Don Drum, Deputy Director Michael Hampton, Chief Investment Officer Bob Maynard, Investment Officer Richelle Sugiyama, Deputy Attorney General Cheryl George, and Management Assistant Lena Rupp were also in attendance. Trustee Gould was absent and excused.

Along with members of the general public, other persons attending all or portions of the meeting were:

Ann O'Bradovich	Callan	Amy McDuffee	Mosaic Governance
Ben Taylor	Callan	Robert Schmidt	Milliman
Jimmy Veneruso	Callan		

At 12:06 p.m., Chairman Cilek called the meeting to order. He welcomed everyone to the meeting.

Trustee Price gave a brief review of the progress of the assessment of the Total Return Fund (TRF) as the default option for the Choice 401(k) Plan. Trustee Price along with PERSI staff have been working with Callan on analyzing the current default option (TRF) as well as what moving over to a Target Date Fund (TDF) would look like. The goal of the analysis is to determine if the TRF is the most suitable as the default fund option. The TRF returns are similar as the returns that would be realized from a TDF. The main difference in returns happens during post-retirement as well as the difference in standard deviation (derisking). Trustee Price feels the TRF is still a very good choice as a default option, however, a TDF may be a better option for the unsophisticated investor or those later in retirement. He feels an age based retirement (TDF) would be a better choice as the default going forward while keeping the TRF as an option members may select.

Trustee Fisher extended her appreciation of the analysis, however, she believes the Choice 401(k) is not relied upon as a main source of income for members and that the TRF will offer better long-term results even with the higher risk profile.

Choice 401(k) Plan Default Fund Option: Ann O'Bradovich, along with Ben Taylor and Jimmy Veneruso, with Callan Associates reviewed the default investment alternative suitability study prepared by Callan. Ms. O'Bradovich presented the timeline of what has taken place so far starting with the Choice Plan RFP process which concluded in June 2020 through today with the presentation of the study results.

Ben Taylor gave an overview of the sustainability study results. In addition to the Choice 401(k) Plan, most participants have access to both the PERSI Base Plan (DB) and social security, which provide for guaranteed inflation-adjusted lifetime income. Of these three sources of income, only the Choice 401(k) Plan produces income subject to market risk. Participant behavior indicates that participants view the Choice 401(k) Plan as a supplement to the DB Plan and social security. Withdrawal patterns do not indicate it is predominantly used for income generation. The Total Return Fund (TRF) and the average Target Date Fund (TDF) glide path achieve similar outcomes over long term time frames. Total Return Fund results in greater point-in-time risk in the form of greater volatility for participants in and near-retirement.

Mr. Taylor stated considering all of this information two hypothesis tests were performed which primarily analyzed whether or not there is clear criteria for changing the default fund option. The TRF did not fail either hypothesis test. As a result of this, Callan concluded that there is room for discussion regarding adding a TDF series but the analysis does not call for changing the default fund option.

Trustee Price stated that he agrees the TRF is a great choice, however, because there is a higher risk, the TRF should be intentionally selected by participants rather than be the automatic default. Mr. Taylor presented additional information regarding PERSI member activity including what percentage activity participate in the Choice Plan (61%), what percentage have their entire balance in the TRF (87%) and the comparison of allocations to an average consensus glide path (TDF).

The glide path also indicates that participants are taking on more risk if they adopt a default other than the TRF up until around age 50. The risk decreases if participants are enrolled and defaulted to the TRF at around age 50 or older. Adoption to a TDF default would raise volatility for a period of time because most participants are early in their career when they join and the average TDF begins to derisk over time at around the average retirement age for participants.

Jimmy Veneruso presented information on the framing of the study. The analysis utilized a Monte Carlo simulation which gives information as to the implications of each of the scenarios through the lens of four risk areas (shortfall risk, short-term volatility, inflation risk and longevity risk) when comparing the TRF to an average "off the shelf" consensus glide path (TDF). Over the longer periods of time the outcomes for the TRF as well as the consensus glide path look extremely similar. The main difference is where in the timeline the most volatility occurs. Early on the TDF leads to more volatility while later on the TRF leads to more volatility. Mr. Veneruso reviewed the individual findings of each of the risk areas for general members, teachers and public safety members with an income replacement ratio target of 70%. The individual results include the findings of social security, the DB Plan and the Choice Plan as sources of income.

In conclusion, Callan's opinion is that the TRF meets income replacement objectives. The downside volatility of a larger equity allocation near retirement is lessened by the observations that participants are not relying on Choice 401(k) Plan assets as a source of income in retirement. Most participants have access to both Social Security as well as the Base Plan which provide for guaranteed inflation-adjusted lifetime income.

Participants over 65 do not appear to be using Choice 401(k) Plan as income source and typically access the funds only when required by the IRS to take an RMD. The Total Return Fund is the same investment portfolio as the Base Plan. The TRF and a TDF series are both suitable as potential defaults options. Ms. O'Bradovich recommended that if the Board is interested in adding a TDF series that Callan give a more in-depth presentation on the different options that are available to choose from before a final TDF series selection is made.

Director Drum stated that in line with fiduciary responsibility, the Board may want to consider having a fiduciary counsel look at the options presented and provide an analysis to the Board regarding the risk of the TRF as well as adding a TDF. Trustee DeAngeli stated that he is not opposed to receiving more information, however, he feels the analysis presented by Callan covers the Board's fiduciary responsibility. Trustee Fisher feels that the higher risk exposure is a positive thing in times of inflation and that changing the default to a TDF would have a negative impact to participants over the long term. Trustee Price stated that he feels the choice to take more risk should be to be up to the participant rather than selected automatically and the default fund should be the most conservative.

Trustee Fisher made a motion to continue use of the Total Return Fund as the default fund option. Trustee DeAngeli seconded the motion. Trustee Price opposed the motion. The motion passed by majority vote.

Chairman Cilek would like to have a future discussion to add a TDF series to the portfolio.

PERSI Funding: Robert Schmidt of Milliman reviewed the results of the Board requested study regarding possibly changing the economic actuarial assumptions. The request for the study is a result of the funding guidelines discussion held at the January governance meeting. The draft funding guidelines currently under review by the Board introduces a new measure of funding level now referenced as "sustainable funding".

To measure whether the fund is meeting this new definition, Milliman calculated the contribution increase probability which is defined as the probability of attaining or surpassing the 25-year amortization level at any fiscal year-end during the next 10 years. In order for the fund to be considered "sustainably funded" this number needs to be sufficiently low. Mr. Schmidt reviewed each of the scenarios of changing inflation and the real return percentages and the impact on the funding ratio, amortization period and contribution rate increase probability. Milliman suggests that the Board further examine the inflation assumption and consider decreasing it. Any change to the Base Plan assumptions will also impact the Firefighters Retirement Fund and the Judges Retirement Fund.

The Board reviewed and discussed the most recent draft of the funding guidelines. It directed PERSI staff, Milliman, and Ms. McDuffee to work together on the draft to ensure the definition of "sustainably funded" is consistent with Idaho statute. The Board would like another review of section 4, specifically the draft priorities and the order in which they are listed. The ordering is constructed to match the principles discussed in section 3. However, the Board wants to make sure there is no implication or negative consequence of such ordering and that the document wording addresses this concern appropriately.

Director Drum stated that having a priority order positively assists in the justification of why one decision is made over another, especially when in conversation with the legislature. This will be taken into consideration when updating the draft document for March. The Board would also like the option of a contribution rate deferral more clearly reflected in the document. The updated draft funding guidelines are to be brought back to the Board at the March governance session.

Sick Leave Investment Policy Statement: Ms. O'Bradovich presented the first draft of the sick leave fund IPS. Callan and investment staff emphasized that the intent of this draft is to reflect the current policy; it does not contemplate de-risking or any changes to asset allocation. Should that occur in the future, the policy will be updated to reflect those changes.

The goal is to have the base plan (DB) IPS and the sick leave IPS be consistent in format and thought process. The last policy statement that was reviewed by the Board was for the Choice 401(k) plan. That process included a thorough internal review with Callan and PERSI staff regarding roles and responsibilities as the DC plan requires a broader set of resources across the operations and investment staffs. The sick leave IPS also includes a roles and responsibilities section but a full review and matrix are not necessary as the resources are essentially the same as used for the DB plan.

The Board directed that Callan and investment staff work with the PERSI fiscal department to do a second review the GASB section to ensure it appropriately reflects required accounting language. Callan invited the Board to send any additional feedback or input regarding the draft policy so that it may be incorporated for the second reading at the March governance session.

Governance Policy Manual: The Board reviewed the draft Board Communication Policy which incorporated requested edits from the first reading at the January meeting. DAG George confirmed she is comfortable with the open meeting law language in the policy. Trustee Price made a motion to adopt the policy as presented. Trustee Fisher seconded the motion which passed unanimously.

The Board discussed the draft Board Liability Coverage policy. Initial Board sentiment was that the draft accurately depicted the topics of the Board's prior discussions. No changes were suggested. Trustee DeAngeli stated that after his discussions with outside parties, he feels OK with the level of coverage currently provided to the Board. CIO Maynard stated he would like more clarification on what needs to be a policy, a guideline, or an educational understanding. His concern is regarding raising the responsibility standard therefore leading to an increase in trustee obligation rather than just adding a guideline or educational piece.

Ms. McDuffee stated that policies such as this are standard best practice by other systems throughout the country in order to facilitate good governance within the Board plus this helps clarify what is stated in statute. Ms. Sugiyama stated that other Boards she has served on throughout the state have never had a policy regarding Board liability coverage and feels having a policy such as this gives the impression that serving on the PERSI Board comes with substantial risk which might deter persons from applying to serve. The Board will consider the discussion and will review the policy again at the March meeting.

The Board reviewed the first draft of the Securities Litigation policy. CIO Maynard gave a brief history regarding the Worldcom litigation matter and subsequent direction from the Office of the Attorney General regarding class actions. CIO Maynard asked, in addition to lead plaintiff decisions, that investment staff be included in opt-out decisions. Ms. Sugiyama provided additional historical context regarding the handling of securities litigation prior to the Worldcom case.

Trustee DeAngeli stated there is a memo from DAG Brad Goodsell from 2007 giving the opinion that PERSI does not have the resources to do lead plaintiff. The Board expressed discomfort with being lead plaintiff and establishing certain thresholds might be something to consider. CIO Maynard stated his opinion is the consideration to being lead or co-lead plaintiff should be highly disfavored unless there is a very compelling reason and upon the recommendation of the Office of the Attorney General.

Ms. McDuffee suggested the Board seek a fiduciary counsel to speak at a future meeting to offer advice regarding fiduciary responsibility and risk relative to class actions. Chairman Cilek stated the Board needs additional time for discussion. The second reading of the policy will be included in the March agenda.

Ms. McDuffee reviewed the items to be on the March agenda based on the meeting today including the funding guidelines, Sick Leave IPS, governance manual policies and long range planning (time permitting). Follow up discussions on Target Date Funds will be held sometime in the future but will not be included in March. Ms. O'Bradovich stated the Callan Conference has been rescheduled to July most likely in Salt Lake City barring any covid restrictions.

No executive session was held.

Adjournment: There being no further business to come before the Board, the meeting adjourned at 4:05 p.m.

Donald D. Drum Executive Director	Date	Jeff Cilek Chairman	3-30-21 Date