

Commonwealth of Massachusetts
Not-for-Profit Defined Contribution Committee
for the Massachusetts Defined Contribution CORE Plan

Meeting Minutes

November 19, 2018 1:00 p.m.
Office of the State Treasurer and Receiver General
One Ashburton Place, 12th Floor Crane Conference Room (West)
Boston, MA 02108

Committee Members Present in person for the meeting:

- Treasurer Deborah B. Goldberg, Chair
- Donna Bonaparte, Committee Member
- Jim Klocke, Committee Member

Committee Members Present via remote participation for the meeting:

- James “Chet” Riley, Committee Member
- Valerie Bassett, Committee Member

Also present for all or part of the meeting were: David Lynch, Executive Director, Defined Contribution Plans; Nicola Favorito, Deputy Treasurer / Executive Director, Retirement Board; Henry Clay, Treasury Director of Investment; Laura Rooney, Director of Operations, Defined Contribution Plans; Emily Robbins, Defined Contribution Plans Counsel; Giuseppe Caruso, Operations Associate, Defined Contribution Plans; Emily Kowtoniuk, Treasury Deputy Legislative Director; Kevin Vandolder, Principal, Aon Hewitt Investment Consulting, Inc.; Beth Halberstadt, Partner, Aon Hewitt Investment Consulting, Inc.; Chris Behrns, Senior Consultant, Aon Hewitt Investment Consulting, Inc.; John P. Fellin, Managing Director of Government Markets, Empower Retirement; Karl Kroner, Client Relationship Manager, New England, Empower Retirement; and Lisa Cardinal, Associate Sales Director Massachusetts CORE 401(k), Empower Retirement.

I. Open Meeting:

In advance of calling the meeting to order, Treasurer Goldberg advised attendees of the recording parameters. Treasurer Goldberg inquired if anyone present was recording and no one identified themselves as making a recording. Treasurer Goldberg then noted that appointed members Mr. Riley and Ms. Bassett would be participating in the meeting remotely, as voted upon at the previous Committee Meeting, as their physical attendance was deemed unreasonably difficult. Treasurer Goldberg stated that remote participants may participate in any votes and that all votes must be taken by roll call.

With a quorum present, comprised of Treasurer Goldberg and appointed members Mr. Klocke and Ms. Bonaparte, the meeting was called to order by Committee Chair Treasurer Goldberg at 1:10 p.m.

II. Approve Minutes:

Treasurer asked for a motion to approve the minutes of the April 25, 2018 meeting, as updated and distributed by Ms. Robbins on November 15, 2018. Mr. Klocke made a motion to approve the minutes. Ms. Bonaparte seconded the motion.

All those in favor. Roll call:

- Ms. Bonaparte – Yes
- Mr. Klocke – Yes
- Mr. Riley – Yes
- Ms. Bassett – Yes
- Treasurer Goldberg – Yes

III. CORE Plan Sales Update: Empower Retirement:

Representatives from Empower Retirement, which provides recordkeeping services for the Plan, gave an overview of the Plan structure and the services Empower Retirement provides.

- Mr. Kroner went through current Plan highlights. Per Mr. Kroner, the Plan currently had over \$1.8 million in total participant assets, and contributions for the third quarter totaled just over \$390,000, including rollovers. Mr. Kroner next informed the Committee that to-date there were 36 nonprofits that had adopted the Plan and then recognized the partnership with Mr. Klocke and Massachusetts Nonprofit Network (MNN) as instrumental to the growth of the Plan thus far.
- Ms. Cardinal directed the Committee to the materials provided by Empower Retirement, beginning with the Agenda items to be covered in the presentation. At a high level, Ms. Cardinal identified Plan activities and events, both past and upcoming. Ms. Cardinal commented that in particular a monthly e-mail campaign sent to prospective employers had been a great tool to generate interest in the Plan.
- Ms. Cardinal highlighted the recent MassAccess Fall Meet & Greets, held in Foxborough, Pittsfield, and Wilmington, as key events targeting local community access stations. Ms. Cardinal stated that these events were part of the outreach efforts to subsector groups. Ms. Cardinal voiced openness to any suggestions that the Committee may have for additional subsectors that may be interested in the Plan. Ms. Cardinal then thanked Mr. Klocke and MNN for their collaboration with the Plan on the MNN Conference held on October 10th and the recent webinar hosted by MNN on October 31st. Lastly, Ms. Cardinal noted that she and Ms. Rooney would be speakers at the upcoming Massachusetts Society of CPAs Nonprofit Committee Meeting.
- Ms. Cardinal next identified opportunities for continued Plan growth. Ms. Cardinal explained that monthly e-mail campaigns to prospective employers is a central component in promotion of the Plan, and that these e-mails outline various aspects of the Plan such as the auto-enrollment feature and fiduciary oversight by the Commonwealth, as well as thought leadership topics. Ms. Cardinal explained that the prospecting list was compiled using GuideStar to identify potential nonprofits and logging opportunities into

Salesforce. Per Ms. Cardinal, the initial list returned 3,025 organizations, and further narrowed down to 1,304 once nonprofits that were either ineligible (i.e. over 20 employees), unlikely to adopt, had a bad or no e-mail on file, or had previously adopted the Plan, were removed.

- ❖ Mr. Klocke asked what search criteria was used to determine the prospecting list. Ms. Cardinal responded that this included all nonprofits listed in Massachusetts that had between one and 20 employees. Mr. Klocke responded that GuideStar was an effective tool, but often omitted some small nonprofits. Mr. Klocke noted that nonprofit listings were also available via the Internal Revenue Service (“IRS”) website, and that nonprofit Form 990s were publicly available and included postal mailing addresses. Ms. Cardinal thanked Mr. Klocke for the suggestion.
- Ms. Cardinal then informed the Committee that once identified, the methodology for contacting prospects varied depending on their level of engagement with prospecting e-mails. Ms. Cardinal stated that there had been strong open rates for the monthly prospecting e-mail campaign, which consistently surpassed the industry average of 23.3%.
- Ms. Cardinal stated that while most e-mails focused on information about the Plan, the prospecting e-mail for the month of September utilized a survey as a method of gathering information. Ms. Cardinal stated that there were 65 surveys completed. Reviewing some of the results, Ms. Cardinal noted that 42% of respondents did not offer a retirement plan for their employees. Of the respondents offering a retirement plan, Ms. Cardinal noted that 21% offered a 401(k) option while 17% offered a 403(b), amongst others. Ms. Cardinal noted cost as the primary reason respondents gave for not offering a retirement plan, as well as fiduciary liability and lack of time for administration. Lastly, Ms. Cardinal added that 46% of respondents were not previously aware of the availability of the CORE Plan.
 - ❖ Mr. Riley noted that fiduciary liability should not be a concern for prospects with respect to this Plan, as the Commonwealth would take on those duties on behalf of the Plan. He then commented that perhaps it was due to a lack of education on the topic amongst prospective employers. Ms. Cardinal agreed and stated that this is something that would be addressed with prospective employers.
 - ❖ Ms. Bonaparte asked why the Plan has not leveraged social media yet. Treasurer Goldberg agreed, and remarked that campaigns on Instagram, Facebook and Twitter should be included in the prospecting efforts. Mr. Fellin agreed with Ms. Bonaparte and Treasurer Goldberg on the importance of social media and noted that it was a focus of the Plan with an upcoming meeting already scheduled with Plan staff and social media strategists at Empower to discuss opportunities with LinkedIn, as well as Facebook and possibly Instagram.

- Ms. Cardinal next directed the Committee to a list of Plan adoptions by quarter, totaling 36 organizations that elected to adopt the Plan as of November 19, 2018. Ms. Cardinal also referred to a list in the materials that identified the campaign that initiated the contact with each adopting organization.
- Ms. Cardinal reviewed some challenges encountered thus far and possible solutions. Ms. Cardinal hypothesized that perhaps they had been focusing too much attention solely on organizations that had opened e-mails and she felt there was opportunity to further their reach. Ms. Cardinal again noted organizations citing cost of implementation as a challenge, as well as organizations choosing alternatives such as SIMPLE IRAs. On the topic of solutions, Ms. Cardinal suggested the possibility of another press release from the Treasury and/or MNN, as well as continued targeting of subsector groups and expanding the current call campaign.
- Lastly, Ms. Cardinal referenced a recent interaction with a financial advisor to several small nonprofit and noted that the advisor spoke positively on several aspects of the Plan. Ms. Cardinal stated she would remain in conversation with this advisor and both would collaborate on outreach to the nonprofit clients with interest in a retirement plan.
 - ❖ Ms. Bonaparte asked if, in addition to targeting specific subsector groups, there had been any data analysis in regard to targeting certain demographics such as women, who statistically have lower incomes and lower retirement savings balances compared to their male counterparts, as well as higher life expectancy, increasing the importance of savings. Ms. Bassett cited childcare and homecare as two potential subsectors to target, both of which often have limited employee benefits. Ms. Bassett also suggested collaborating with additional nonprofit networks such as The Boston Foundation, United Way, and Mass Save, which could open up channels to more nonprofits. Ms. Cardinal responded that she has been in contact with several of the regional United Way organizations across Massachusetts and would continue to pursue them, as well as work with Ms. Rooney for additional opportunities in other networks.
 - ❖ Ms. Rooney asked if the Committee would also be open to assist in various events and outreach across different nonprofit networks. Mr. Klocke responded that MNN regularly works with several nonprofit networks and would be happy to help.
 - ❖ Returning to the topic of data, Ms. Bassett asked if there were ways to find which sectors and regions had the highest need for retirement plans. Ms. Rooney responded that both Mr. Lynch and Mr. Caruso continued to work on gathering data on a city and county level.

With no further questions, Mr. Fellin stated he wanted to thank the Committee once again and that Empower was proud to be a part of the CORE Plan.

1:38 a.m. Empower departs.

IV. Market Review, Highlights and Performance Update: Aon Hewitt:

At the invitation of the Plan, representatives from Aon Hewitt Investment Consulting, Inc. (“Aon Hewitt”), who are the Outsourced Chief Investment Officer (OCIO) of the Plan, provided an overview of the Plan and the services that they provide.

- Following introductions, Mr. Vandolder gave some background on the history of the Plan, noting his familiarity with it based on the existing relationship with the Massachusetts Deferred Compensation 457 SMART Plan for public employees and stated that Aon Hewitt appreciates the continued partnership with Commonwealth. Mr. Vandolder stated that research is vital to Aon Hewitt as a firm, and that from an investment standpoint the Plan was built and structured in a manner reflective of this research in best practices for retirement plans.
- Ms. Halberstadt directed the Committee to the Aon Governance Overview. Ms. Halberstadt explained the responsibilities that would be taken on by Aon Hewitt, namely its role as the 3(38) fiduciary and OCIO on behalf of the Plan, in addition to fund development, policy development, fiduciary support and investment monitoring. Ms. Halberstadt stated that Mr. Behrns would speak on the investment lineup and would be the primary contact for day-to-day investment solutions. Ms. Halberstadt then added that in addition to Mr. Behrns, Mr. Vandolder, and Ms. Halberstadt herself would be working on the Plan daily and available for any questions.
- Ms. Halberstadt explained that the OCIO model was a growing trend in the retirement plan space, particularly for smaller organizations. Ms. Halberstadt gave additional background on the firm, stating that Aon Hewitt currently had over 300 defined contribution clients, with 32 clients utilizing the OCIO model and comprising over \$30 billion in assets under management. Ms. Halberstadt noted that the clients utilizing Aon Hewitt as OCIO varied in size, but that the implementation was not one size fits all. On that subject, Ms. Halberstadt noted continued work with Plan staff and outside ERISA counsel on the development of the Investment Policy Statement, in addition to development of the Plan investment lineup and fund structure, which included a custom suite of target date funds and objective based funds.
- Moving to the Quarterly Investment Review, Mr. Behrns began with a review of the current asset allocation amongst the investment options and performance of the fund lineup. Directing the Committee to the materials provided, Mr. Behrns noted that the Plan’s participants have a high allocation to the various target date funds. In regard to performance, Mr. Behrns noted that the target date funds utilized a custom benchmark based on the investments that comprised them. Mr. Behrns added that the Plan target date funds were also compared to a peer universe of similar target date fund vintages offered by investment firms. With that in mind, Mr. Behrns cited positive initial performance from the Plan target date funds compared to its peers.
 - ❖ Mr. Lynch asked if the peer comparisons were done in-house at Aon Hewitt or outsourced. Mr. Behrns responded that the data used was outsourced. Mr. Lynch asked how the data provider determined which firms were included in this data.

Mr. Behrns responded that it primarily included the larger investment firms that have performance data of the target date mutual funds readily available. Mr. Lynch asked if T. Rowe Price and Vanguard products were included in the data as well. Mr. Behrns confirmed.

- ❖ Mr. Klocke asked if it was typical to have such high concentration of overall plan assets allocated to target date funds. Mr. Behrns responded in the affirmative, noting that target date funds were often the qualified default investment alternative (QDIA), as is the case for the Plan, and that they were an appealing option for participants who do not want to manage their own assets as the funds are pre-diversified and automatically adjust investment allocations over time. Mr. Lynch echoed Mr. Behrns response and stated that professional investment assistance, in the form of either managed accounts or target date funds, have historically shown to have the best performance over long periods of time.
- In addition to the target date funds, Mr. Behrns noted the availability of four objective based funds, for investors seeking this option. Mr. Behrns stated that while the Plan had a simpler lineup compared to many other 401(k) plans, the objective based funds were also pre-diversified in accordance to their risk profile.
 - ❖ Ms. Bonaparte asked about participants seeking to invest in specific funds not currently available, such as socially responsible funds; although. Mr. Behrns responded that socially responsible funds, or environment, social, and governance (ESG) funds, had been at the forefront lately as a topic of research, despite the lack of an option for the Plan at the moment. Mr. Behrns noted that Aon Hewitt would continue to research for potential availability. Mr. Vandolder added that for some plans, adding a Self-Directed Brokerage account provides greater participant flexibility.
 - ❖ Ms. Bonaparte asked how participants could communicate to the Plan their desire for an ESG option. Ms. Halberstadt responded that they could contact the Empower participant services line to request availability of certain funds, and these would be communicated to Treasury staff and Aon Hewitt as well.
- Mr. Behrns next touched on investment fees and referenced the comparison table between Plan investments and comparable institutionally priced mutual funds. Mr. Behrns noted that Plan investment fees were lower across the investment lineup.
- Mr. Behrns continued on with a review of compliance matters, beginning with quarterly affirmations. Mr. Behrns stated that these included the various aspects and responsibilities associated with 3(38) fiduciaries, such as reconciling market values and weekly calls to monitor investment options, amongst others.
- On the topic of annual and ongoing initiatives, Mr. Behrns noted several items associated with best practices in running the Plan including but not limited to annual reviews of the Investment Policy Statement, fiduciary training of the Plan Investment Committee

(“Investment Committee”) and Plan staff every three years. Mr. Behrns noted that initial fiduciary training was scheduled in two weeks’ time.

At this time, Mr. Behrns asked if there were any questions from the Committee or Treasury staff.

- ❖ Mr. Lynch asked how often the target date fund glidepath was reviewed, and if demographics of the participant base were factored in to the determination of the glidepath. Mr. Behrns responded that the target date fund glidepath was reviewed annually. He then added that the annual review was currently underway, to be completed prior to the upcoming Investment Committee meeting. Ms. Halberstadt confirmed that participant base demographics, such as the larger population of women as compared to men, etc., were factored in to glidepath development.
- ❖ Ms. Bonaparte asked whether the funds were modeled as portfolios that change only to retirement, or instead whether the target date funds evolved through a participant’s retirement. Mr. Behrns confirmed that the funds are modeled to evolve through retirement.
- ❖ Mr. Riley asked if, when discussing long-term investments, the characteristics of the Plan participant population signified a need for potentially riskier investments. Mr. Behrns responded that the Plan participant characteristics canceled each other out, because while women have longer life expectancies and therefore need to have more saved, low income earners have a higher percentage of their retirement income, relative to their current salary, covered by Social Security payments.

Mr. Lynch, also responding to Mr. Riley, added that the participant website includes helpful tools that show retirement income projections based on account characteristics, which could be updated instantly based on account changes. Mr. Lynch also referenced programs which could assist participants, such as managed accounts and a spend-down advice feature.

- With no further questions, Treasurer Goldberg thanked the representatives from Aon Hewitt for their presentation. Mr. Vandolder thanked the Treasurer and the Committee on behalf of Aon Hewitt for the invitation and the continued partnership.

V. Marketing and Outreach Strategy Development

Treasurer Goldberg turned the Committee members’ attention to a discussion on marketing and outreach strategy. Treasurer Goldberg noted that much on this topic had already been discussed during the Empower presentation, particularly in regard to social media.

- Ms. Bassett, referring back to the topic of subsectors, noted that she would be happy to assist in outreach to various groups as well. Mr. Klocke agreed and reiterated that MNN regularly works with smaller subsector nonprofit networks in the Commonwealth.

- Ms. Bonaparte asked about potential ways to reach out to a broader range of nonprofits, beyond the current group of roughly 1,300 identified by the Plan staff and Empower. Treasurer Goldberg noted that, from a legislative perspective, an amendment to the current Plan legislation (M.G.L. c. 29, § 64E) which would strike the 20-employee cap for nonprofit organizations was filed on November 7, 2018. Treasurer Goldberg thanked the legislative team for their work on filing the amendment. Treasurer Goldberg noted that an employer had already been turned away from joining the Plan for having 21 employees, and that example had been cited in discussions with legislators.
 - ❖ Mr. Lynch continued, reiterating that research was being done to review data, on a town and county level, of organizations that do not provide a retirement plan benefit to their employees. Treasurer Goldberg agreed with the increasing importance of this benefit for employees and noted that lack of a retirement plan could dramatically impact retirement readiness. Mr. Lynch agreed.
 - ❖ Ms. Bassett asked about the possibility of promoting one of the nonprofits currently enrolled in the Plan via prospecting emails and social media. Ms. Rooney responded that Plan staff and Empower were currently reviewing the possibility of a testimonial for promotion in 2019. Ms. Bassett also asked about adding campaigns around National Retirement Planning Week and National Retirement Security Week. Ms. Rooney agreed and confirmed that these could be opportunities for the upcoming year.

VI. Misc.

With no additional items to discuss, Treasurer Goldberg thanked the Committee members, Treasury Plan staff, and everyone in attendance for their work and wished everyone a happy and healthy Thanksgiving holiday.

VII. Future Meeting Dates

Treasurer Goldberg suggested circulating future meeting dates electronically. Treasurer Goldberg noted that Mr. Lynch would be in touch and circulate dates for the next Committee meeting. Mr. Lynch confirmed.

VIII. Close of Meeting

2:13 p.m. Close of Meeting.

Treasurer Goldberg asked for a motion to adjourn. Motion to adjourn by made by Ms. Bassett seconded by Ms. Bonaparte. Treasurer Goldberg asked for a roll call to approve the motion to adjourn.

All those in favor. Roll call:

- Ms. Bonaparte – Yes
- Mr. Klocke – Yes

- Mr. Riley – Yes
- Ms. Bassett – Yes
- Treasurer Goldberg – Yes

**Documents Used at the Inaugural Meeting of the
Not-for-Profit Defined Contribution Committee held on November 19, 2018**

- Agenda for the November 19, 2018 Not-for-Profit Defined Contribution Committee Meeting;
- Minutes of the April 25, 2018 Not-for-Profit Defined Contribution Committee Meeting;
- Aon Governance Overview, November 19, 2018;
- Aon Quarterly Investment Review, Third Quarter 2018; and
- Empower Retirement CORE Plan Sales Update.