

**ILLINOIS SECURE CHOICE BOARD**

**Secure Choice Investment Subcommittee Meeting  
Tuesday, September 26, 2017  
James R. Thompson Center  
100 West Randolph, Room #15-600, Chicago, Illinois**

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**MEETING MINUTES**

The September 26, 2017 meeting of the Secure Choice Investment Subcommittee (“Subcommittee”) was called to order at 9:00 a.m. CT.

**BOARD MEMBERS PRESENT**

Jay Rowell  
*Designee for the Illinois State Treasurer*

Miriam Martinez  
*Office of the City Treasurer – Chief Investment Officer*

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

**TREASURER’S STAFF**

Joe Aguilar, *Deputy Director – Investment Analysis and Due Diligence*

Courtney Eccles, *Invest in Illinois Program Manager*

Julian Federle, *Chief Policy and Programs Officer*

Rodrigo Garcia, *Chief Investment Officer*

**DISCUSSION – RECOMMENDED INVESTMENT FRAMEWORK**

Peter Gerlings of Segal Marco (“Segal”) outlined Segal’s recommendation for the Secure Choice investment framework, including the type and number of funds. Segal provided a review of target risk versus target date options, and recommended that Secure Choice adopt target date funds as the default investment option. He noted that this is standard within the retirement savings space.

*Mr. Gerlings presentation slides are available on the Secure Choice webpage under Board materials.*

Mr. Gerlings recommended that the Board begin with a very simple line-up and offer a limited number of investment options, specifically an S&P 500 index option, a bond fund, and a money market fund in addition to the default option.

Mr. Rappaport asked whether there was a reason to consider additional funds down the road or whether the Board should continue to offer a very simple line-up. Mr. Gerlings stated that it wasn't necessary to offer additional fund options, but the Board may have cause to expand beyond its original line-up. Ms. Martinez added that the initial set of investors would likely be overwhelmed by too many options, but there is no harm in leaving the framework open, in case it's determined that the target audience is different than expected.

The Subcommittee discussed the importance of the target date fund being the default investment option and the likelihood that very few Secure Choice participants will select alternative options. They agreed that it would be important for the website and marketing materials to clearly explain the risks associated with selecting a more aggressive fund option, such as the S&P 500 index fund, and allow participants to understand what each fund option is.

Ms. Martinez asked about the rationale behind the 90 day hold period before contributions are placed into the appropriate target date fund. Ms. Eccles responded that the hold period is intended to provide a cushion for individuals who decide to opt out of Secure Choice after the first few paychecks, to ensure that a change in the market doesn't potentially cause a loss in principle. By holding contributions in a capital preservation fund, participants who choose to exit the program and want to remove their money will be able to do so while minimizing the potential loss of funds. Mr. Garcia added that the 90 day window also aligns with the notice periods for ERISA covered plans such as 401(k) and 403(b) plans.

Mr. Rappaport noted his support for the proposed framework and the fact that it strikes the right balance of simplicity with a limited amount of choice for those who have the interest or sophistication to select their own options. He believes this is the right framework for the targeted audience.

Mr. Aguilar circulated a memo that staff prepared, which concurs with Segal's recommendation and provides background on how the recommendation was made, including staff's focus on utilizing the Board's investment principles throughout the process.

*Subcommittee members voiced their support for the recommended investment framework.*

## **DISCUSSION – CAPITAL PRESERVATION FUND**

Ms. Eccles reminded the Board about the reason for creating the 90 day hold period and added that the goal is to find a fund option that would be appropriate for preserving contributions and minimizing loss. Mr. Rowell added that the Board also needs to consider the costs and fees that could eat into the contributions, if there are not adequate earnings.

Mr. Garcia explained that in addition to the investment fees associated with each investment option, the Board needs to consider the impact of the program management fee and weigh what type of fund option to use. The Subcommittee discussed the pros and cons of utilizing a government money market fund, a prime money market fund, or a Federal Deposit Insurance Corporation (FDIC) insured fund. Mr. Garcia noted that the risk of loss is less of a concern currently, because interest rates are rising, but if rates are stagnant or decrease, a participant might experience a loss in principle not because of the market but because the yield does not overcome the fees that will be assessed. He stated that staff is looking for feedback from the Subcommittee so that a formal recommendation can be made at a future meeting.

Ms. Martinez asked whether it is possible to establish a “rainy day fund” that could be used if interest rates ever began to decrease. Ms. Eccles noted that given the expected cost structure, it might be difficult to establish such a fund during the early years of the program. Mr. Rappaport voiced concern about taking money from participants without guaranteeing that they would be the individuals to whom it is returned. Ms. Martinez asked staff to look into the possibility.

The Subcommittee discussed Segal’s suggestion to use a government money market option only for the 90 holding period then offer a prime money market fund option for the investment line-up. Mr. Rowell stated that with the Subcommittee’s direction, Segal and Treasurer’s staff would bring back a recommendation to the Subcommittee at its next meeting.

### **DISCUSSION – DRAFT INVESTMENT POLICY STATEMENT**

The Subcommittee reviewed the draft Investment Policy Statement (IPS), which was provided in advance. Subcommittee members agreed to provide any edits or feedback to staff, after which an updated draft IPS would be circulated. Mr. Garcia explained that the IPS would then be sent to Ascensus for feedback and edits then a new draft would be provided to the Subcommittee for approval and recommendation to the full Board.

It was clarified that the IPS would not be brought to the full Board for approval until the November or December Board meeting.

### **OLD OR NEW BUSINESS**

There was no new business. Mr. Rowell noted that the minutes for this meeting and the previous Subcommittee meeting would be presented for approval at the next meeting.

**PUBLIC COMMENT**

There were no public comments.

**ADJOURNMENT**

With no further business before the Subcommittee, Mr. Rowell adjourned the meeting at 10:15 a.m. CT.