

**MINUTES OF THE**  
**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**ARP COMMITTEE**

**August 25, 2017**

**I. ROLL CALL & APPROVAL OF AGENDA**

A meeting of the Alternative Retirement Plan (ARP) Committee was called to order on this date at 2:50 p.m. in the Educational Retirement Board conference room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico. A quorum was present.

**Members Present:**

Mr. Hipolito J. Aguilar, Chair  
Dr. Donald Duszynski  
Mr. Larry Magid

**Members Excused:**

None.

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Rick Scroggins, Deputy Director  
Mr. Roderick Ventura, General Counsel  
Ms. Susanne Roubidoux, Deputy General Counsel

**Others Present:**

Mr. Farhad Mirzada, Director, Cammack Retirement Group  
Ms. Judith Beatty, Recorder

**Dr. Duszynski moved approval of the agenda, as published. Mr. Magid seconded the motion, which passed unanimously by voice vote.**

**II. REVIEW AND APPROVAL OF MINUTES: January 13, 2017**

Mr. Magid moved for approval of the minutes of the January 13 meeting, as submitted. Dr. Duszynski seconded the motion, which passed unanimously by voice vote.

### **III. CAMMACK RETIREMENT GROUP DUE DILIGENCE REVIEW – JUNE 30, 2017**

Farhad Mirzada, Director, Cammack Retirement Group, presented this report, with the following highlights:

- As of June 3, 2017, the NMERB ARP Plan held approximately \$620.6 million in combined total assets.
- Top three asset category holdings are in Large Cap Equity (35 percent), Fixed Account (17 percent) and Target Date Funds (16 percent)

#### **TIAA Program**

- Total plan assets were \$493,109,405 as of June 30, 2017. Assets are invested across 27 mutual or variable annuity funds (target date funds included as one investment):
  - TIAA Traditional Annuity and Stable Value Annuity assets: \$93,932,991
  - TIAA-CREF Variable Annuity Assets: \$257,551,521
  - Mappable mutual fund assets: \$141,624,882
- Top three asset category holdings of the contract are in Large Cap Equity U.S. (37 percent), Fixed Account (19 percent) and Target Date (12 percent).
- Overall plan weighted expenses for the mutual funds and variable annuity subaccounts is 0.43 percent.
- The interest rate for deposits made to the TIAA Traditional Account (GRA) was 4.00 percent. The interest rate for deposits made to the TIAA Stable Value Account was 1.40 percent (includes multi-vendor fee of 0.40 percent)
- No funds quality for watch or replacement for Q2 2017.

#### **Fidelity Program**

- Total plan assets under the program at Fidelity are \$73,018,557 for the period ending June 30, 2017. Assets under this vendor are invested

across 19 different mutual funds and one fixed option (target date funds included as one investment):

- NY Life Guaranteed Interest Account are \$69,295
  - Mappable mutual fund assets are \$72,949,371
- Top three asset category holdings of the contract are in the Target Date Funds (47 percent), Large Cap Equity U.S. (21 percent) and International Equity (8 percent).
  - Overall plan weighted expenses for mutual funds is 0.54 percent
  - Current interest rate for deposits made to the NY Life Guaranteed Interest Account is 1.95 percent.
  - No funds qualify for watch or replacement at this time.

#### VALIC Program

- Total plan assets under the program at VALIC are \$54,448,395 for the period ending June 30, 2017. Assets under this vendor are invested across 60 different variable annuity subaccounts by 441 account holders.

Mr. Mirzada reviewed Cammack's investment analyses:

-- In the TIAA Traditional Account (GRA) contract, as well as the RA contract (an earlier version of the GRA), the current crediting rate is 4.00 percent, and the average duration of the investments being held is at 7.78 years. The longer duration is possible because of certain restrictions placed on withdrawals, and the fund's very high financial strength ratings are of particular importance to Cammack in its analysis to make sure TIAA can pay the claims of plan participants. He noted that the TIAA Traditional fund has been argued in recent litigation, when Schlichter Bogard & Denton pointed out that plan participants didn't know there were restrictions on withdrawals. Mr. Mirzada commented that Cammack believes there should be an alternative investment option for plan participants who don't want such restrictions, and the plan offers that with the TIAA Stable Value fund as well as a money market investment option in the TIAA array.

-- CREF stock's composite benchmark is 70 percent in the Russell 3000 and 30 percent in the MSCI All Country World Index (excluding U.S.). In the litigation the Schlichter firm argued against, they were comparing this fund against the S&P 500, which is close to 100 percent domestic equity. Over the last ten years,

domestic equity has outperformed international funds, so Cammack is comfortable with the composite benchmark that the fund is targeting, which is returning 45-50 basis points above the benchmark. With fees factored in, returns are in line with that target.

-- The TIAA Real Estate Fund is unique because this type of option is not available across any other major provider. It is held as an annuity with direct real estate investments, primarily through rental income and appreciation of real estate and real estate-related investments.

-- The Fidelity Freedom Fund's objective is to provide a 75 percent income replacement ratio (including Social Security) at retirement, assuming participants save 15 percent of income per year. In looking at risk adjusted return and performance across all of the vintages, it is outperforming the majority of funds in its category.

Ms. Goodwin asked if NMERB might get further reductions in fees with Fidelity's target date funds after it has more money invested in them, because the expense ratios are still higher than all of the TIAA funds. Mr. Mirzada responded that the TIAA-CREF Target date funds utilize an institutional share class within the program and do not share any revenue to offset any of the recordkeeping costs because the program's remaining investments provide sufficient revenue to cover the program's administrative/recordkeeping expense. The Fidelity array, however, needs either revenue from the investment options or must assess a fee to cover the 12 basis points to pay for the recordkeeping fees. He added that the Department of Labor hasn't provided much guidance on the methodology for charging administrative fees. One is an asset-based fee, which is being utilized by the program, and another is a per capita charge across all plan participants. The Department of Labor states that either one is suitable, and the courts have not offered an opinion on any methodology.

#### **IV. BREAKDOWN OF ARP PARTICIPANTS IN EACH SCHOOL BY CARRIER**

Mr. Mirzada said this item was covered as part of Cammack's report.

#### **V. DISCUSSION AND POSSIBLE ACTION REGARDING PARTICIPANTS' RATE OF RETURN, INVESTMENT EDUCATION AND OUTREACH EFFORTS**

Ms. Goodwin stated that, after many months, TIAA finally provided the NMERB with information on how individual participants were doing. A lot of

people have had their money invested for ten years with an average return of 1 or 2 percent. NMERB's concern is that TIAA and Fidelity are not doing a very good job of doing aggressive outreach among participants. Mr. Mirzada added that research has shown participants make one or two changes in their asset allocation during their entire working career, therefore, investing in Target Date funds become appealing to combat inertia. Mr. Mizada also added that the prior default under the program was money market, therefore, if plan participants were defaulted into money market it may offer an explanation to the low yield that some participants have earned.

Ms. Goodwin said the question is what TIAA and Fidelity should be doing to help get these plan participants to overcome that inertia and make some good financial decisions. She added that this outreach and education is part of their commitments in their agreements.

Mr. Mirzada said he analyzed TIAA's and Fidelity's communication efforts. Because TIAA also has many of the university and college's Deferred Compensation plans, they are combining all of the education and communication together. The efforts should be separated as the ARP plan is considered more like a "pension" plan for participants, and maintain different investment options.

Mr. Mirzada said Cammack is working very closely with both vendors to take data that they have, mine the data, and come up with a customized communication campaigns based on the different life segments of the participants that the vendors can employ with them. He said this is not just sending out email blasts, but would include print materials. Based on past research, Cammack believes it takes six or seven "touches" before participants will finally act or take some sort of action.

Chairman Aguilar said the next ARP Committee meeting would probably take place in November. He said there is some urgency to this, and if the vendors are not willing to do what is being asked of them, he would like to see them appear before the committee at that time to offer an explanation. He said the committee's focus is on ARP plans and not the other elements that are part of the vendors' combined efforts.

Mr. Ventura asked if TIAA and Fidelity do customized communications with other plans. Mr. Mirzada responded that their outreach is more in electronic media (email blasts) with action rates typically at 2 percent, while the average in the industry is about 3-5 percent. He commented that it is desirable to get 15-20

percent of a take action rate to help gear up some change in the investment allocations.

Mr. Mirzada also noted that participants under TIAA's program, where returns were lower over the 10-year period at close to 7%, with some participants at 1 or 2 percent, participants in the Fidelity program were higher; he noted that Fidelity as a vendor to the NMERB ARP plan is still fairly new compared to TIAA, therefore, more participants are using target date funds compared to that of TIAA. He also mentioned the brand loyalty to TIAA among higher education employees is also very high, therefore, more participants may choose TIAA over Fidelity.

Chairman Aguilar asked if the contracts with TIAA and Fidelity have performance metrics. Mr. Mirzada responded that Cammack has added service guarantees to the contracts. If they were not to honor the service guarantees, they would be held accountable.

Dr. Duszynski stressed that one-on-one meetings should be held with incoming plan participants and that they should not be allowed to sign any paperwork until they thoroughly understand the program options.

#### **VI. OTHER BUSINESS**

None.

#### **VII. ADJOURNMENT**

Its business completed, the committee adjourned the meeting at 4:05 p.m.

Accepted by:

  
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Larry Magid, Chairman [appointed on October 20, 2017]

Date signed: 12/9/17