

**MINUTES OF THE**

**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**

**ARP COMMITTEE**

**April 19, 2018**

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

A meeting of the Alternative Retirement Plan (ARP) Committee was called to order on this date at 9:00 a.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. Larry Magid, Chair

Mr. David Craig

**Members Excused:**

Dr. Donald Duszynski

**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. Mari Tsagareishvili, Cammack Retirement Group [on telephone]

Ms. Charmaine Claire for Judith Beatty, Recorder

**Mr. Craig moved approval of the agenda, as published. Chairman Magid seconded the motion, which passed unanimously.**

**II. REVIEW AND APPROVAL OF MINUTES: December 7, 2017**

**Mr. Craig moved approval of the December 7, 2017 minutes, as submitted. Chairman Magid seconded the motion, which passed unanimously.**

**III. CAMMACK RETIREMENT GROUP DUE DILIGENCE REVIEW – DECEMBER 31, 2017**  
**FARHAD MIRZADA, DIRECTOR, CAMMACK RETIREMENT GROUP**

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Mr. Mirzada noted that the committee had previously expressed interest in looking at the Rowe Price Capital Appreciation Fund; unfortunately, the fund is closed.

Mr. Mirzada presented Cammack's executive summary, 2017 plan in review, and 2018 business planning strategy.

-- As of 12/31/17, the ARP plan held approximately \$678 million in combined total assets. There are two active vendors, TIAA and Fidelity, along with a closed inactive frozen vendor in VALIC. There has not been much traction in the assets moving over from VALIC, but he sees some opportunities as surrender charges begin to expire.

-- The top three asset category holdings of total plan assets are Large Cap Equity U.S. (21%), Hybrid (19%) and Target Date Funds (18%).

-- TIAA plan total assets under the program were \$536,522,702. Assets under this vendor are invested across 27 different mutual or variable annuity funds (target date funds included as one investment). TIAA Traditional Annuity and Stable Value Annuity assets, \$98.5 million; TIAA Variable Annuity assets, \$271 million; Mappable mutual fund assets \$167 million.

Mr. Mirzada said the majority of Fidelity's assets are within the target date options, where Cammack would expect more plan participants to choose that option for ease of investment. He said new investors that join TIAA also choose the target date options, and this is a common theme across all the contribution programs that have a target date option within the mix.

Mr. Mirzada said that TIAA has about \$370 million invested between the TIAA Annuity and Stable Value Annuity or the Variable Annuity funds; however, if the NMERB wanted to move assets out of TIAA, those assets would be restricted because of the individual contracts that are held within TIAA. However, if they wanted to move those assets or de-select a certain investment option, it has the ability to do that with the mutual fund assets.

Mr. Mirzada stated that, if plan participants want to move out of the TIAA traditional fund and gear up for retirement, they can go ahead and make those movements themselves, however, will be restricted to annual installments or other options available under the contract.

Chairman Magid commented that that, even if the NMERB were to get TIAA to advise their clients, they would never advise moving money out of their own funds. He said they need independent advice.

Mr. Mirzada agreed that it is important to have unbiased service providers, but they do take a fiduciary role in providing that advice. He commented that, when one sees the metrics after plan participants seek advice, the majority of plan participants will choose a target date option because it is easy to understand, it diversifies their assets and participants cite in surveys that they don't have the time to meet on an annual basis to undergo a portfolio review, which would require them to take a more active role in rebalancing and monitoring their investments.

-- The interest rate for deposits made to the TIAA Traditional Account was 4.00 percent in 2017. The interest rate for deposits made to the TIAA Stable Value Account was 1.40 percent.

-- TIAA Real Estate is recommended for watch as of December 31, 2017. This is not performance driven and relates to a manager change.

-- Total plan assets under Fidelity program at \$85 million, with assets invested across 19 mutual funds and one fixed option (target date funds included as one investment): NY Life Guaranteed Interest Account, \$75,664; Mappable mutual fund assets, \$85 million. Given that the NY Life account interest rate is higher than the money market rate, Cammack found out that the information being shared by Fidelity about the NY Life account includes language about restrictions that really don't affect plan participants. Cammack is working with Fidelity to change the language and better educate plan participants on that fund. The account is completely liquid.

-- Top three asset category holdings of the contract with Fidelity are in Target Date Funds (49 percent); Large Cap Equity U.S. (21 percent) and International Equity (9%).

-- Current interest rate for deposits made to the NY Life Guaranteed Interest Account is 2.00 percent.

-- Fidelity Small Cap Discovery is recommended for watch as of December 31, 2017.

-- Total plan assets under VALIC program are \$56.3 million. Assets are invested across 61 variable annuity subaccounts with 457 account holders.

In reviewing activities during 2017, Mr. Mirzada said Cammack worked with vendors to reduce share classes across both platforms, where appropriate, due to reductions in recordkeeping expenses at vendors.

Mr. Mirzada commented that plan participants tend to think that the recordkeeping is free. Ms. Goodwin asked if this information could be included on the

statements. Mr. Mirzada responded that, because NMERB is non-ERISA, fee disclosures aren't required at the plan participant level. He said this is best practice, however, and Cammack could discuss that with the providers. He added that, if they go to fee levelization, they would be completely transparent and plan participants would see all of the expenses itemized.

Ms. Tsagareishvili reviewed individual investment analyses that were not on the investment scorecard due to their uniqueness and character:

- TIAA Traditional Annuity. Backed by TIAA's claims-paying ability. TIAA guarantees invested principal and the contractual interest rate, and offers the opportunity for additional amounts in excess of the guaranteed interest rate. Has one of the highest ratings in the industry. TIAA is able to guarantee a 3 percent rate, and 4 percent for RA and GRA contracts and 3.25 percent for SRA/GSRA contracts.

- CREF Money Market R2, YTD 2018 yielding 99 basis points as of yesterday. Highest yielding rate in last decade.

- CREF Stock – R2. Aimed to provide exposure to all major equity segments. Has 30% in international equity and 70 percent US equity. One year return 23.3%. CREF stock was able to outperform the benchmark in a down market.

- TIAA Real Estate. Recommendation to stay on watch. Fund manager Gerry Casimir has left TIAA to pursue other opportunities. Randy Giraldo has been named new lead portfolio manager.

Ms. Tsagareishvili recommended putting Fidelity Small Cap Discovery on watch due to a recent management change. Chuck Meyers stepped down at the end of the year after taking a six-month leave of absence in 2016. Derek Janssen, who worked with Meyers prior to that, assumed responsibility for the fund during Meyers' leave of absence and has now taken on full management. While the short-term performance has been a concern recently, in Q4 the fund outperformed the benchmark for the first time in 2017.

- Fidelity Freedom target date fund. Fund's objective is to provide a 75% income replacement ratio (including Social Security) at retirement, assuming participants save 15% of income per year. This fund has a higher equity allocation than TIAA's Life Cycle Fund and is a very diversified target date manager with a lot of asset classes. Equity glide path starts at 90% and manages through 15 years after retirement at 25% of equity.

Ms. Goodwin asked how long of a career does that assume if retirement is at 65. Ms. Tsagareishvili responded that it is meant for people just entering the workforce in their early 20s and who plan to retire in 45 years. Ms. Tsagareishvili said the savings

assumes that participants in their early twenties will save for the next 45 years and, once retired, will have 75% of that they were earning. Mr. Mirzada said when employees enter the workforce earlier and save, the higher probability of meeting the 75% income replacement threshold. Ms. Tsagareishvili added that they don't necessarily have a horizon of 30 or 40 years after retirement, but are looking at longevity risk.

Mr. Scroggins commented that the wording is much more specific on the Fidelity Freedom fund strategy than the TIAA CREF Life Cycle. Ms. Tsagareishvili said TIAA doesn't have a specific number that they target, but instead consider the tradeoff on the capital element in conjunction with mortality rates.

#### **IV. DISCUSSION AND POSSIBLE ACTION ITEM ON TIAA AND FIDELITY COMMUNICATION CAMPAIGNS WITH ARP PARTICIPANTS**

Mr. Mirzada reviewed initiatives undertaken by Cammack as part of their "retirement readiness campaign."

Mr. Mirzada said Cammack has met with TIAA and Fidelity, and there has been some transition across both teams servicing the programs. TIAA has a new relationship manager, Nicolette Dixon, and Cammack has discussed its goals with her in accomplishing retirement readiness.

Mr. Mirzada said there is some concern about investment return across the TIAA program. While some plan participants were in the right place from an investment performance standpoint, at least 10-20 percent were not. In considering the markets over the last ten years, one would have expected at least 8.5-10 percent growth from them; however, Cammack observed that some participants had flat returns because they were not diversifying their portfolios. Cammack advised that language has to be careful with the targeted messaging because of fiduciary concerns about providing investment advice from the plan sponsor level, but that doesn't mean that the service providers can't provide that guidance.

Mr. Mirzada said Cammack will identify "pockets of need" where plan participants are not in diversified portfolios. They will use retirement income gap analyses through TIAA, and will run a similar report through Fidelity to see if the results differ. The focus will be more on TIAA, however, as Cammack is satisfied with the asset allocation at Fidelity.

Mr. Mirzada said both vendors yesterday indicated that participants didn't really understand the program differences. He said it would therefore be prudent to help educate plan participants that the majority of their retirement income will come from this plan outside of Social Security and personal savings.

Mr. Ventura commented that the first step is to get the data together from TIAA and Fidelity to determine who needs the most education, and what kind of education, so a strategy can be developed.

Mr. Mirzada said Cammack will meet with the ARP group to identify the need and deploy a communication strategy. They will bring in the partners to discuss ways of communicating and make sure everyone will consistently deliver the same message. He said the bundled service fees include access to counselors, but most of the communication will be through phone apps, electronic media and technology. Because the response rate to email messaging is generally 5 percent or less, they are going to have to come up with new ways of reaching people.

**V. RENEWAL OF PROFESSIONAL SERVICES CONTRACT: ROD VENTURA, GENERAL COUNSEL**

[Mr. Mirzada left the meeting.]

Mr. Ventura recommended that the ARP Committee extend the existing contract for services to Cammack Retirement Group, which has been a consultant with the NMERB since about 2011. He noted that contracts under the ERB's Alternative Retirement Plan are specifically exempt from the provisions of the state procurement code and therefore can be approved by the ARP Committee. The ARP Charter grants the ARP Committee the authority and duty to "ensure that the plan is administered by service providers in accordance with the objectives of the board."

Mr. Ventura reviewed the scope of work and said the proposed contract would be for \$58,000 for the entire year. The amount is paid out through TIAA's and Fidelity's expense account and is paid quarterly.

Mr. Ventura said legal staff has found that Cammack Retirement is both experienced with similar defined contribution plans such as the ARP plan and has been proficient in assisting the NMERB in administering the plan.

Mr. Scroggins asked why this is only a one-year contract. He commented that the process for renewing a contract is lengthy with several steps.

Mr. Ventura clarified that he discussed this issue with past General Counsel Chris Bulman. They agreed that, because it doesn't go to DFA for approval, it should go through the RFP process if it was to be a multiyear contract. Because Cammack's contract has not gone through the RFP process at this point (because it is under the \$60,000 threshold), it was felt that it would be better to renew it one year at a time.

Mr. Ventura noted that Cammack's contract is increased every year and next year will likely reach \$60,000. He suggested considering a multiyear contract next year under the RFP process. Chairman Magid said he thought this was a good idea.

Mr. Craig suggested postponing the RFP process until the new administration is in place.

Chairman Magid pointed out that VALIC has \$56 million sitting in a fund and they make it very difficult for people to withdraw money from that account without receiving it in installments over several years. He said plan participants should be informed about this; and given that there are only 457 participants, he suggested they be specifically targeted.

**Mr. Craig moved that the ARP Committee authorize a consultant contract with Cammack Retirement Group for an additional year, subject to New Mexico State Law, Educational Retirement Board policies, and negotiation of final terms and conditions and completion of appropriate paperwork. Chair Magid seconded the motion and the motion passed unanimously.**

**VI. OTHER BUSINESS**

Ms. Goodwin discussed the meetings that have begun taking place with ARP plan participants about their individual asset allocations.

**VII. ADJOURNMENT**

The meeting was adjourned at 11:30 a.m.

Accepted by:

  
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Larry Magid, Chairman