

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ARP COMMITTEE

April 18, 2019

1. ROLL CALL & APPROVAL OF AGENDA

A meeting of the Alternative Retirement Plan (ARP) Committee was called to order on this date at 8:45 a.m. in the offices of the Educational Retirement Board, Suite B-450, 8500 Menaul Boulevard, N.E., Albuquerque, New Mexico. A quorum was present.

Members Present:

Mr. Larry Magid, Chair
Dr. Donald Duszynski

Members Excused:

None

Staff Present:

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

Others Present:

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

Upon motion by Dr. Duszynski, seconded by Chairman Magid, the agenda was approved unanimously.

2. REVIEW AND APPROVAL OF MINUTES: December 6, 2018

Dr. Duszynski moved approval of the December 6, 2018, minutes, as submitted. Chairman Magid seconded the motion, which passed unanimously.

**3. CAMMACK RETIREMENT GROUP DUE DILIGENCE REVIEW -- 12-31-18:
FARHAD MIRZADA, DIRECTOR, CAMMACK RETIREMENT GROUP**

Mr. Mirzada and Ms. Burns presented this report.

From the Executive Summary:

-- As of December 31, 2018, the ERB ARP plan held approximately \$651.7 million in combined total assets. The top three asset category holdings are in Large Cap Equity (21 percent), Target Date Funds (19 percent) and Hybrid (16 percent).

TIAA Program

-- Total plan assets under the program are \$513,813,445. Assets under this vendor are invested across 27 different mutual or variable annuity funds.

-- Two funds recommended for watch as of December 31, 2018, mostly because of manager changes:

- Templeton Global Bond R6 – place on watch
- Columbia Mid Cap Growth Inst3 – placed on watch Q1 2018

Fidelity Program

-- Total plan assets under the program are \$88,824,479. Assets are invested across 19 different mutual funds and one fixed option. The top three asset category holdings of the contract are in the Target Date Funds (51 percent), Large Cap Equity U.S. (22 percent) and Bond (9 percent).

Four funds recommended for watch as of December 31, 2018, mostly because of manager changes:

- Templeton Global Bond R6 – place on watch
- Columbia Mid Cap Growth Inst3 – placed on watch Q1 2018
- Fidelity Advisor High Income – place on watch
- Fidelity Small Cap Discovery – placed on watch Q4 2017

VALIC Program

-- Total plan assets under the program at \$49,047,331. Assets are invested across 60 different variable annuity subaccounts by 408 account holders.

Mr. Mirzada reviewed 2018 participation and utilization statistics for TIAA and Fidelity.

With respect to TIAA, Mr. Mirzada noted that Cammack did deploy a strategy last year around moving people out of the CREF Money Market Fund, where they had all of their assets. A total of nine people moved, out of 83 participants.

Mr. Mirzada stated that Duke University is the second of many university higher education institutions that have agreed to a settlement in a class action lawsuit which claimed they had breached their fiduciary responsibilities by allowing unreasonable expenses to be charged to participants, maintaining underperforming funds when they should have replaced them, and other alleged claims. Even though Duke agreed to the settlement, it doesn't mean they are claiming any wrongdoing. The amount paid, \$10.65 million, is a relatively small amount against the size of the fund. He added that one-third goes to the attorneys and about \$6 million to plan participants.

Mr. Mirzada said he had brought the committee's attention to this lawsuit because, although the ERB is not an ERISA plan, it does follow best practices, and the lawsuit represents a trend in the industry. Ms. Burns stated that there is concern that the next target may be large public systems.

Ms. Burns reviewed the plan allocation details and provided a review of the plan's investment options. There were no additional concerns and no action necessary, except for the funds on watch

**4. DISCUSSION AND POSSIBLE ACTION ON FEE LEVELING:
FARHAD MIRZADA, DIRECTOR, CAMMACK RETIREMENT GROUP**

Mr. Mirzada stated that higher education plan sponsors are now re-evaluating the structure of how fees are assessed on participant accounts.

Mr. Mirzada said a review of the defined contribution marketplace shows that "levelizing" or "leveling" can provide a better solution to how fees can be assessed to pay for plan administrative fees and other qualified expenses.

- Fee levelization is considered a best practice. It focuses on levelizing the total expenses across all investment options offered in the plan by either providing a service credit to investment options that share revenue for total plan expenses, or assessing a plan service fee if the option doesn't provide any revenue offsets or is below targeted total plan expenses.
- Fee leveling provides for all participants to pay their equal portion of the plan's administrative fees or other qualified expenses by percentage.
- It provides a clear separation of plan administrative/recordkeeping fees and other qualified expenses from investment expenses
- A fee adjustment is applied to each investment option – either credited or debited to the revenue sharing of each investment option to achieve levelization at an agreed upon rate.

Mr. Mirzada said Cammack is proposing that total revenue required for administration of the retirement program would be targeted at 12-14 basis points, depending on the vendor. Most TIAA & CREF annuity options have a revenue share of 20

basis points, mutual fund investment options in the plan may move to more efficient or lower share class if possible

Mr. Mirzada reviewed fee structure, proposed timeline, proposed letter for participants explaining updates, and sample quarterly statements.

Mr. Mirzada said Cammack feels very strongly that the ERB should be moving in this direction, especially now that TIAA now has the capability of doing this, as does Fidelity.

Dr. Duszynski moved approval to adopt a fee levelization program, as proposed. Chairman Magid seconded the motion, which passed unanimously.

5. DISCUSSION AND POSSIBLE ACTION ON MOVEMENT TO RETIREMENT CHOICE CONTRACTS WITH TIAA: FARHAD MIRZADA, DIRECTOR, CAMMACK RETIREMENT GROUP

Mr. Mirzada presented an overview of the TIAA contract structure. The old legacy contracts at TIAA (Retirement Annuity) are planned annuity contracts, and when a plan participant is ready to retire, they have to take ten level payments over a nine-year period. Currently, the program uses the Group Retirement Annuity (GRA) contract, which is actually an individual contract, and those constitute the majority. Both of these contracts are illiquid at the employer level, with various restrictions at the participant level.

Mr. Mirzada said a newer contract, Retirement Choice (RC), would be applicable to the ARP and allows the ERB to better mitigate fiduciary risk and improve overall plan management, among other benefits. Participants also have the potential for higher returns for the TIAA Traditional; for example, the GRA is at 4 percent, but the RC version is 4.25 percent. Employee cash-ability for the TIAA Traditional is 84 monthly payments, or a lump sum 2.5 percent charge, versus the GRA's 10 annual payments with the same surrender charge. The minimum crediting rate is 3 percent for the GRA and between 1 and 3 percent for the RC, with the minimum rate determined annually on January 1.

Mr. Mirzada recommended that the committee approve the Retirement Choice contract, now that the U.S. is in a rising rate environment; however, there is always that concern that rates can drop back down where potential yield can dip below 3 percent. He stressed, however, that this is only for prospective money, and any assets continuing in the RA/GRA contracts will continue at the 3 percent level.

Chairman Magid said he liked this option, since it allowed people to get their money out without having it tied up for ten years.

Dr. Duszynski moved approval of the Retirement Choice contract with TIAA. Chairman Magid seconded the motion, which passed unanimously.

6. STATUS UPDATE ON 2019 DIVERSIFICATION CAMPAIGN STRATEGY – TIAA FARHAD MIRZADA, DIRECTOR, CAMMACK RETIREMENT GROUP

Mr. Mirzada provided an update on the 2019 diversification campaign. Cammack has been working with TIAA and has communicated with all of the affected institutions about the strategy being deployed.

Ms. Roubidoux stated that, in March, an email was sent out to all of the higher education institutions introducing the communication and education campaign. The next step will be to send out a communication in the next few weeks with all of the institution logos included on the letterhead regarding the importance of diversifying assets and suggesting that participants reach out to the account manager.

Mr. Mirzada said the hope is that by the summer of 2020 Cammack will be able to capture the metrics on the success of the campaign.

7. RENEWAL OF PROFESSIONAL SERVICES CONTRACT: CAMMACK RETIREMENT GROUP – SUSANNE ROUBIDOUX, GENERAL COUNSEL

[Cammack representatives were excused from the meeting.]

Ms. Roubidoux said the current professional services consultant contract with Cammack expires on June 30, 2019 and that staff is recommending renewal of the Cammack contract for a period of one year at \$58,000, the same compensation as the current contract.

Ms. Roubidoux stated that she works closely with Mr. Mirzada throughout the year on ARP-related matters. He is very knowledgeable, responsive, and very easy to work with.

Dr. Duszynski moved that the ARP Committee authorize a professional services consultant contract with Cammack Retirement Group in the amount of \$58,000 for an additional year, subject to, and contingent upon New Mexico State Law, Educational Retirement Board policies, and negotiation of final terms and conditions and completion of appropriate paperwork. Chairman Magid seconded the motion, which passed unanimously.


8. OTHER BUSINESS

None.

9. ADJOURNMENT

Meeting was adjourned at 10:50 a.m.

Accepted by:

A handwritten signature in blue ink, appearing to be 'L. Magid', written over a horizontal line.

Larry Magid, Chair