**MINUTES OF THE**

**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**

**ARP COMMITTEE**

**December 5, 2019**

## I. ROLL CALL & APPROVAL OF AGENDA

A meeting of the Alternative Retirement Plan (ARP) Committee was called to order on this date at 9:05 a.m. in the offices of the Educational Retirement Board, Suite A-319 8500 Menaul Boulevard, N.E., Albuquerque, New Mexico. A quorum was present.

**Members Present:**
Mr. Larry Magid, Chair
Dr. Donald Duszynski
Mr. Steven Gluckstern [by telephone]

**Members Excused:**
None

**Staff Present:**
Ms. Jan Goodwin, Executive Director
Mr. Roderick Ventura, Deputy Director
Ms. Susanne Roubidoux, General Counsel
Ms. Elena Cardona, Deputy General Counsel

**Others Present:**
Mr. Farhad Mirzada, Director, Cammack Retirement Group
Ms. Denise Burns, VP, Head of Investments, 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: APRIL 18, 2019

**Dr. Duszynski moved approval of the April 18, 2019, minutes, as submitted. Chairman Magid seconded the motion, which passed unanimously.**

## 3. WELCOME NEW COMMITTEE MEMBER: STEVEN GLUCKSTERN

Chairman Magid welcomed Mr. Gluckstern to the committee.

**4. ALTERNATIVE RETIREMENT PLAN 101 – AN OVERVIEW OF ARP: SUSANNE ROUBIDOUX, GENERAL COUNSEL**
**FARHAD MIRZADA, DIRECTOR, CAMMACK RETIREMENT GROUP**

Ms. Roubidoux and Mr. Mirzada presented an overview of the Alternative Retirement Plan [slide presentation on page 11].

**5. CAMMACK RETIREMENT GROUP DUE DILIGENCE REVIEW – SEPTEMBER 30, 2019**
**FARHAD MIRZADA, DIRECTOR, CAMMACK RETIREMENT GROUP**

-- As of September 30, 2019, the ERB ARP plan held approximately $684.6 million in combined total assets. The top three asset category holdings are in Large Cap Equity (22 percent), Target Date Funds (20 percent) and Hybrid (15 percent).

TIAA Program

-- Total plan assets under the program are $573,067,527. Assets under this vendor are invested across 27 different mutual or variable annuity funds.

-- Recommended for watch as of September 30, 2019: Templeton Global Bond R6. Placed on watch Q4 2018 because of fund manager change.

Fidelity Program

-- Total plan assets under the program are $111,516,066. Assets are invested across 18 different mutual funds and one fixed option. The top three asset category holdings of the contract are in the Target Date Funds (52 percent), Large Cap Equity U.S. (21 percent) and Bond (8 percent).

VALIC Program

-- Total plan assets under the program at $52,387,284. Assets are invested across 59 different variable annuity subaccounts by 390 account holders.

2019 Legislative Updates & Fiduciary Oversight

Mr. Mirzada said that, on August 20, 2019, the Ninth Circuit in *Dorman v. Charles Schwab Corp.* affirmed a provision that allowed documents to have individual arbitration for ERISA claims. In non-ERISA plans, if there are any lawsuits or claims made, an arbitration clause can be included in plan documents to remedy the claim or issue and avoid the court system. Cammack feels this would be beneficial because higher education institutions have been targeted in class action lawsuits over the last 3 to 5 years by one law firm in particular that is citing improper investments and too-high fees. He said there are pros and cons to using arbitration, however, such as having an arbitrator who is not as well versed as what might be seen in a regular court proceeding; and the fact that the arbitrator's ruling is binding. He suggested that the ERB consult with Groom Law Group to discuss whether adding an arbitration clause would make sense.

Mr. Mirzada noted that sometimes plan participants choose a vendor and then fail to complete the enrollment process. When that happens, they are defaulted into the plan's target date options.

Chairman Magid asked whose responsibility it is to make sure the plan participant finishes the enrollment process.

Mr. Mirzada responded that plan participants will receive a letter from TIAA notifying them that they didn't finish enrollment and that their funds were defaulted. There is also an annual reminder letter. He noted that non-ERISA plans are not required to do this, so Cammack works with those plans to make sure they follow best practices.

Chairman Magid said target date funds have been proven to not work and are falling out of favor.

Ms. Burns stated that the investment management companies that don't have target dates are losing a lot in assets in retirement plans because there has been such a big shift into target dates. She agreed that target date funds do not consider an individual's risk tolerance, but they serve to provide a broad asset allocation that is appropriate for one's age.

Mr. Mirzada agreed with the Chair that target date funds are the flavor of the moment but historically have outperformed managed accounts. Cammack continues to promote consultations with individual counselors, however.

Ms. Burns presented the economic review.

-- Templeton Global Bond R6. Placed on watch Q4 2018 on the thesis that Sonal Desai is no longer co-PM. She has been promoted to chief investment officer of Franklin Templeton, but remains as an advisor to the fund. However, performance for the quarter is down 3.31%.

## 6. STATUS UPDATE: FARHAD MIRZADA, CAMMACK RETIREMENT GROUP

Mr. Mirzada reported that TIAA is in the process of transitioning to Retirement Choice contracts. This will be for prospective money, and any new contributions going into TIAA Traditional, TIAA Real Estate, and CREF annuity options will start moving into the new contract, with a January 2020 effective date.

Mr. Mirzada discussed progress in the fee-leveling project.

On the diversification campaign, Mr. Mirzada said a key goal is to reach out to plan participants, and Cammack is working with ERB to enhance the current communication and education program. The TIAA diversification strategy included a scheduled series of touch points such as email, direct mail and phone calls that began in July 2019 and ended in October 2019. More than 1,800 plan participants were outreached during the targeted communication, with a 42% open email rate, which resulted in a 10% "take action" rate.

Mr. Mirzada said the Fidelity diversification strategy included ERB email and direct mail and concluded with virtual workshops in January 2020. There were 153 participants who were outreached.

**7. PLAN EXPENSES: OPTIONS FOR RETURNING PLAN SERVICING CREDITS TO PARTICIPANTS**

Mr. Mirzada noted that the program transitioned from a planned expense reimbursement account at TIAA, which is not a plan asset, to a revenue credit account.

-- Revenue Credit Account Balance as of 9/30/19: Fidelity, $183,965; and TIAA, $1,001,012.

-- Recommendation is to return about $900,000 to plan participants in TIAA and Fidelity and allow for about $280,000 to cover future eligible plan expenses.

Mr. Mirzada said TIAA has historically allowed excess revenue to be returned to participants on a pro-rata or per-capital basis, but it now offers five allocation methods. Cammack is recommending the asset-based method, where participants receive a credit proportionate to their account balance when compared to total plan assets in revenue-sharing investments. Cammack feels this is the most equitable option.

Mr. Mirzada stated that TIAA plans to distribute the money by the end of the year.

**Dr. Duszynski moved that the committee agrees to the recommendation that return the revenue credit account balance to participants using the "asset-based proportionate above revenue requirement" method, so that participants receive a credit that is proportionate to their account balance when compared to total plan assets in revenue-sharing investments only and in proportion to the amount of each investment's revenue sharing rate but only if the revenue sharing rate is above the**

**vendor's revenue requirement rate for balances as of December 31, 2019. Mr. Gluckstern seconded the motion, which passed unanimously.**

## 8. PROPOSED AMENDMENT TO ARP OPERATIONS MANUAL: SUSANNE ROUBIDOUX, GENERAL COUNSEL

- **§§ II(A) (Fund Administration), III (Contributions) and VI (Reporting)**

Ms. Roubidoux said that House Bill 360, passed in the 2019 legislature, increased the ARP employer contribution that is paid directly to the ERB fund. The provision is codified in Section 22-11-49(B) of the Educational Retirement Act. It requires that an employer pay 3.25% of the annual salary of each ARP participant directly to the fund. The new rate is effective July 1, 2019. Prior to this statutory change, the rate was 3.0 percent. The ARP Operations Manual cites the old rate in three sections – Fund Administration, Contributions and Reporting. These sections should be amended to delete "three percent (3%)" and insert "three and one-fourth percent (3.25%)."

**Dr. Duszynski moved to recommend that the appropriate changes be made to delete 3.0% and replace it with 3.25% in the three cited sections of the Manual. Mr. Gluckstern seconded the motion, which passed unanimously.**

## 9. OTHER BUSINESS

None.

## 10. ADJOURNMENT

Meeting was adjourned at 11:05 a.m.

Accepted by:

Larry Magid, Chair