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

**June 8, 2022**

**1. a. CALL TO ORDER/ASCERTAIN QUORUM**

A meeting of the Alternative Retirement Plan (ARP) Committee was called to order at 9:00 a.m. via teleconference/videoconference. A quorum was present.

**Members Present:**

Mr. Larry Magid, Chair  
Dr. Donald Duszynski  
Mr. Mario Suazo

**Members Excused:**

None.

**Staff Present:**

Mr. David Archuleta, Executive Director  
Mr. Rick Scroggins, Assistant Director  
Ms. Susanne Roubidoux, General Counsel  
Ms. Monica Lujan, Member Services Director

**Others Present:**

Mr. Jared Hardin, Financial Advisor, CAPTRUST  
Mr. Michael Sanders, Principal, CAPTRUST  
Ms. Judith Beatty, Recorder

**b. APPROVAL OF AGENDA**

**Dr. Duszynski moved approval of the agenda, as published. Mr. Suazo seconded the motion, which passed unanimously.**

**2. REVIEW AND APPROVAL OF MINUTES: December 3, 2021**

**Dr. Duszynski moved approval of the December 3, 2021, minutes, as submitted. Mr. Suazo seconded the motion, which passed unanimously.**

### **3. INTERIM UPDATE: JARED HARDIN, FINANCIAL ADVISOR, CAPTRUST**

- **Implementation of New Plan Administrative Fee and RCA Reimbursement**

Mr. Hardin gave an update regarding implementation of the reduction in recordkeeping fees in the TIAA and Fidelity programs that the Committee approved at the December meeting. He said there were no issues with Fidelity applying these changes, but there was a glitch at TIAA as the reduction in fees was only applied at the ARP level and not at the participant level. TIAA made the corrections and returned the excess fees to the participants in March 2022.

- **Completion of Vanguard Share Class Changes**

Mr. Hardin stated that the Vanguard Extended Equity Fund in the TIAA program and the Vanguard Inflation Protected Securities Fund in the Fidelity program were changed from the Admiral Share Class to the Institutional Share Class, effective January 12, 2022, without any issues.

### **4. TIAA CONTRACT STRUCTURE REVIEW AND CREF ANNUITY UPDATES: JARED HARDIN, FINANCIAL ADVISOR, CAPTRUST**

- **TIAA Traditional Contract Structure**
- **Plan Services Expense Offset Change**
- **CREF Annuity R3 and R4 Share Class Changes**
- **CREF Annuity Recommendations**

Mr. Hardin reviewed TIAA and CREF annuity contract comparisons.

Mr. Hardin noted that, under the old contracts, there was a requirement to offer TIAA Traditional CREF Stock and CREF Money Market as open and available investment options. With the new contracts there are no mandated investments, which offers more flexibility.

Mr. Hardin discussed the changes occurring with each of the eight CREF variable annuities. Effective July 1, 2022, TIAA will lower the revenue sharing that they previously provided to participants from the variable annuities to help them pay for administrative fees and recordkeeping. Currently, ARP is using the CREF R2 share class, which is being lowered from 20 to 15 basis

points of revenue sharing. While TIAA has decreased their expense ratios on these variable annuities by about 40 percent since 2015, they never adjusted the amount of revenue sharing they were returning participants. Effective April 29, 2022, a new R4 share class version was offered without any of the embedded revenue sharing in it, and with net fee of 3 basis points less than the current R2 share classes. This share class is only offered in the new contracts.

Mr. Hardin stated that ARP is eligible to move to the R3 share class for all of the old assets, a total amount of \$288 million. This will save participants about \$30,000 a year. With respect to the \$415 million ARP has in the old contracts, that will stay forever in these contracts until every single person moves their money somewhere else.

Mr. Hardin reviewed a fixed and variable annuity asset summary with recommendations.

**Dr. Duszynski moved that the committee approve CAPTRUST's recommendations related to the CREF Variable Annuity Accounts, as follows:**

- **Within the Retirement Annuity (RA) and Group Retirement Annuity (GRA) contracts, move all CREF Variable Annuity Account assets from the R2 share class to the R3 share class.**
- **Within the Retirement Choice (RC) contract:**
  - **Replace CREF Equity Index R2 and map all assets and future contributions to Vanguard Institutional Index I;**
  - **Replace CREF Inflation-Linked Bond R2 and map all assets and future contributions to Vanguard Inflation-Protected Secs;**
  - **Replace CREF Money Market R2 and map all assets and future contributions to Vanguard Federal Money Market; and**
  - **Move all assets in and future contributions to CREF Stock R2 and CREF Social Choice R2 from the R2 share class to the R4 share class.**

**Mr. Suazo seconded the motion, which passed unanimously.**

**5. DEFINED CONTRIBUTION QUARTERLY REVIEW – MARCH 31, 2022:  
JARED HARDIN, FINANCIAL ADVISOR, CAPTRUST  
MICHAEL SANDERS, PRINCIPAL, CAPTRUST**

- **Program Overview**

- **Industry Updates**
- **Economic Review**
- **Investment Analysis**
- **Fund Lineup Recommendations**

Mr. Hardin presented the program overview and industry updates.

Responding to Chairman Magid, Mr. Hardin said TIAA reached a settlement with the SEC and the New York Attorney General's office last year regarding some of their wealth management practices, incentivizing their advisors to advise plan participants to move their money from the plan into a personal wealth management account and didn't properly disclose all of the fees associated with it. TIAA recently finalized the amounts that will be returned to each of the participants, and CAPTRUST will be able to provide the committee with the number of participants impacted and the amounts to be returned to them. TIAA now offers in-plan account management so participants don't have to move their money out of the account. He concurred with a comment by Chairman Magid that TIAA's failure to disclose all of the fees was a breach of their fiduciary process.

Mr. Hardin stated that, on March 10, 2022, the U.S. Department of Labor (DOL) issued guidance on cryptocurrency mainly as it relates to retirement plans. A couple of participants have raised the question of offering cryptocurrency as part of a retirement plan's investment menu. The DOL basically has said that this is a bad idea because of cryptocurrency's volatility, its unregulated status, and the fact that most participants aren't aware enough of the risks to make an informed decision. The DOL has also stated that they will audit any plan fiduciaries if they do decide to offer it, because a plan won't be able to prove it was the best fiduciary decision. Mr. Hardin added that Fidelity was the first record-keeper to make cryptocurrency available to plan sponsors to adopt if they wanted to.

Mr. Sanders presented the economic review and investment analysis.

Mr. Sanders presented fund lineup recommendations. He suggested that DFA Emerging Markets I should remain on watch rather than be replaced right now. Performance whipsawed during each quarter in 2021, but overall performance was positive.

**Dr. Duszynski moved that the committee approve CAPTRUST's recommendations for the investment watchlist, as follows:**

- **Oakmark International Institutional: Place on Watch**
- **Fidelity High Income: Place on Watch**

- **Fidelity Small Cap Discovery: Remove from Watch**
- **DFA Emerging Markets I: Place on Watch**

**Mr. Suazo seconded the motion, which passed unanimously.**

**6. TARGET DATE FUND SERIES REVIEW (QDIA):  
JARED HARDIN, FINANCIAL ADVISOR, CAPTRUST  
MICHAEL SANDERS, PRINCIPAL, CAPTRUST**

Mr. Hardin led a review and comparison of the plan's current target date fund series. An overview was provided of the target date fund selection and review process including to/through retirement glidepath strategies, active vs. passive management, and target date fund risks. The review was based in part on the Department of Labor's Employee Benefits Security Administration Tips for ERISA Plan Fiduciaries release and CAPTRUST's vetting criteria.

Mr. Hardin said the purpose of this review was to lay the groundwork for future conversations about the target date fund series in both the TIAA and Fidelity programs. The target date fund series is the default investment option for all new participants who don't choose their investment elections. Very recently there has been some litigation in the area of target date fund series. The litigation against the Fidelity Freedom Funds target date series in particular appears to be without merit, but because it is pending litigation, CAPTRUST wanted to bring this to the committee's attention.

The Plans currently utilize the actively managed TIAA-CREF Lifecycle and Fidelity Freedom target date fund series. The current TDF series were compared to their passively managed counterparts as well as the Vanguard Target Retirement series. The comparison included expenses, diversifying asset classes, glidepath strategies, equity exposure, and performance.

It was noted the actively managed TIAA-CREF Lifecycle series has slightly underperformed the index version of the series when looking at the 3-, 5-, and 10-year history. This is attributed in part to the actively managed series' higher expense, additional asset class diversification (including emerging markets and global debt which have struggled over recent years), as well as the higher equity exposure and concentration in the passively managed series. The actively managed Fidelity Freedom series has outperformed its index version when looking at the 3-, 5-, and 10-year history but not by a considerable amount.

Due to the impact to participants of changing the TDF series and the market volatility since March 2020, CAPTRUST does not recommend changing the

TDF series at this time. However, it was noted that participants may benefit from the reduced expenses of the passively managed series if their performance continues to be in line or superior to that of their actively managed counterparts.

Chairman Magid expressed concern that people relying on the glidepath, with bonds probably underperforming for the next four or five years, are going to be very disappointed when it doesn't perform as promised. Mr. Hardin agreed that some of the performance in these target date funds will more than likely going to be strained in a couple of years. If some of those underlying components in the actively managed series are underperforming and the components in the passively managed series start to improve, that will be the time to make the switch.

[CAPTRUST representatives left the meeting.]

**7. PROFESSIONAL SERVICES CONTRACT FY2023 – CAP FINANCIAL PARTNERS, LLC d/b/a CAPTRUST FINANCIAL ADVISORS: SUSANNE ROUBIDOUX, GENERAL COUNSEL**

Ms. Roubidoux stated that this contract expires on June 30. The request is to renew the contract for another year. The scope of work and compensation are unchanged from the current contract. Ms. Roubidoux noted that CAPTRUST has served as the ARP consultant for the past several years and provides knowledgeable and responsive service to the ARP and the Committee.

**Dr. Duszynski moved approval of a one-year professional services contract with CapFinancial Partners LLC, d/b/a CAPTRUST Financial Advisors for ARP consultant advisory services, with compensation of \$58,000 and the term beginning on July 1, 2022, subject to and contingent upon New Mexico State Law, Educational Retirement Board policies, negotiation of final terms and conditions, and completion of appropriate paperwork. Mr. Suazo seconded the motion, which passed unanimously.**

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

- **Article I(H) Eligibility Return to Work Provision Cleanup**
- **Article II(A) Fund Administration: ARP employer remittance to the NMERB fund increases to 6.25% beginning 7/1/22 and 7.25% beginning 7/1/23 (§22-11-49(B) NMSA 1978; statutory changes enacted by the 2022 Legislature, Senate Bill 36).**

Ms. Roubidoux stated that House Bill 73a (HB73a), passed by the 2022 Legislature, added a new Return to Work (RTW) program. The section of the Operations Manual on RTW hasn't been updated in many years and refers only to the original RTW program. Over the years, the Legislature has created additional RTW programs. With the addition of the new program added by HB73, there are now four different RTW programs. The proposed amendment cross-references the return to employment statute (Educational Retirement Act, §22-11-25.1) and 2.82.5 NMAC, which is the NMERB rule where the RTW programs reside, thus eliminating the need to update the manual every time the legislature creates a new RTW pathway.

Ms. Roubidoux said the 2022 Legislature also increased the employer remittance to the NMERB Fund in Senate Bill 36. The remittance increases to 6.25 percent beginning on July 1, 2022 and 7.25 percent beginning on July 1, 2023. The proposed amendment to the manual cross-references the ARP contribution statute (§22-22-49(B) rather than reiterating the new statutory rate, thus eliminating the need to update the manual every time the legislature increases the ARP employer remittance to the NMERB fund.

**Dr. Duszynski moved approval of the proposed amendments to the ARP Operations Manual as presented and that the amendments be presented to the Board for their final review and adoption. Mr. Suazo seconded the motion, which passed unanimously.**

**9. OTHER BUSINESS: SCHEDULING NEXT ARP COMMITTEE MEETING (FALL 2022)**

The next meeting was scheduled for Thursday, December 8, 2022.

**10. ADJOURNMENT: 11:45 a.m.**

Accepted by:



Larry Magid, Chair