



SmartSave Committee Meeting

via Zoom tele/videoconferencing

PERA Building, 33 Plaza La Prensa, Santa Fe, NM 87507

October 11, 2022

After Rules and Administration Committee

Committee Members:

Lawrence Davis – Chair

Francis Page

Roberto Ramirez

Shirley Ragin – Vice Chair

Maggie Toulouse Oliver

AGENDA

- 1. Call to Order**
- 2. Pledge of Allegiance**
- 3. Roll Call**

- 4. Approval of Agenda**
- 5. New Business**

ITEM			Presenter
A.	Recommendation to adopt the PERA SmartSave Deferred Compensation Plan Fee Policy Statement, including the Appendix.	Action	Michael Shackelford, PERA CIO Karyn Lujan, PERA SmartSave Plan Manager

- 7. Adjournment**

Any person with a disability who is in need of a reader, amplifier, qualified sign language interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing or meeting, please contact Trish Winter at 476-9305 at least one week prior to the meeting, or as soon as possible. Public documents, including the agenda and minutes, can be provided in various accessible formats. Please contact Ms. Winter if a summary or other type of accessible format is needed.

STATE OF NEW MEXICO

**PUBLIC EMPLOYEES
RETIREMENT ASSOCIATION
OF NEW MEXICO**

FEE POLICY STATEMENT

for the

PERA *SmartSave*

Deferred Compensation Plan 

October 11, 2022

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I. SCOPE

This Fee Policy (“Policy”) applies to payment of Plan expenses for administration of the State of New Mexico’s 457b PERA SmartSave Deferred Compensation Plan (“the Plan”) administered by the Public Employees Retirement Association of New Mexico (“PERA”).

II. DEFINITIONS

As used in this Policy:

“Account” means the account established and maintained on behalf of a Participant, Alternate Payee or Designated Beneficiary pursuant to Section 5.1(a). The Account shall include all Amounts Deferred, designated Roth 457 (b) contributions and Section 457 Transfers;

“the Act” means the State of New Mexico Deferred Compensation Act, Sections 10-7A-1 through 10-7A-12 NMSA 1978, as it may be amended from time to time;

“Board” means the New Mexico Public Employees Retirement Board, established by NMSA 1978, Section 10-11-130 (1995) of the Public Employees Retirement Act;

“the Code” means the Internal Revenue Code of 1986, as now in effect or as hereafter amended. All citations to sections of the Code are to such sections as they may from time to time be amended or renumbered;

“Fee(s)” means the specified dollar amount collected from participant Accounts on a quarterly basis to cover Plan Expense(s);

“Fee Holiday” means a period in which a fee is not collected from participant Accounts;

“Investment Consultant” means the principal investment consultant selected by the Board from time to time to advise the Board about the investment functions of the Plan;

“Investment Option” means one of the available alternatives for crediting investment earnings to a Participant’s Account, which shall be based upon the performance of one or a combination of the investment portfolios maintained under the Trust Fund;

“Mutual Fund Revenue” means payments made back to the Plan from certain investment options that can be used to offset Plan expenses;

“Plan” means the State of New Mexico Deferred Compensation Plan, as amended from time to time;

“Plan Document” means the governing document of the same name that the Board adopted for the Plan in compliance with the Code and the Act, as it may be amended from time to time;

“Plan Expense(s)” means the items in the budget used for PERA’s internal operating costs for Plan oversight and the cost of contractual services for the Plan’s Investment Consultant and Third Party Administrator, all of which are approved by the PERA Board;

“Plan Expense Reimbursement Account” means the account held in custody by the Third Party Administrator that is used for the sole purpose of paying Plan Expenses;

“Participant” means an Employee or former Employee who has given an investment direction under Section 4 and who continues to have an Account or Rollover Account under the Plan;

“SmartSave Committee” means the committee established by the Board to review and monitor the administration of the deferred compensation plan; and

“Third Party Administrator” means the contract administrator that performs record keeping, enrollment, education services and other administrative duties for the Plan.

III. LEGAL AUTHORITY

The Board administers the Plan under the authority of the Act and the Plan Document. For the purposes of this Policy, Section 10-7A-10 of the Act governs the expenditures necessary to implement and maintain the Deferred Compensation Act and states that expenditures shall be charged to participating employees or to deferred compensation carriers including those submitting proposals.

Section 4.1 of the Plan Document states that reasonable fees and expenses may be incurred on behalf of the Plan.

Section 5.3(a) states that the expenses of administering the Plan, including (i) the fees and expenses of the Deferred Compensation Carriers and Third Party Administrator for the performance of their duties under the Plan, (ii) the fees and expenses, if any, incurred by Public Employees Retirement Association in the performance of its duties under the Plan (including reasonable compensation for any legal counsel, settlements of claims or legal actions approved by counsel to the Plan, certified public accountants, consultants, and agents and cost of services rendered in respect of the Plan and the Trust Declaration (as provided therein), and (iii) all other proper charges and disbursements of the Deferred Compensation Carriers, Third Party Administrator, shall be paid out of the Trust Fund, and allocated to and deducted from the Accounts, Rollover Accounts, and Alternate Payee Accounts as of each Valuation Date.

IV. PURPOSE OF THE POLICY

In administering the Plan, the Board acts as a trustee for the exclusive benefit of the Participants and their beneficiaries by providing a voluntary, participant-directed, supplemental, eligible 457b retirement program that is understandable, transparent, and offers competitive fees. The Board further established the SmartSave Committee to assist the Board in administering the Plan. This Policy shall complement the Act, the Plan Document, and other applicable laws.

Accordingly, the Board adopts this Policy to implement Section 10-7A-10 of the Act and Sections 4.1 and 5.3(a) of the Plan Document as they relate to Plan fees and expense remittances and to comply with its responsibilities to Participants under applicable provisions of the Uniform Prudent Investor Act, Sections 45-7-601 through 45-7-612 NMSA 1978.

V. POLICIES FOR FEE REMITTANCES

Fees for Plan Expenses, as detailed in the Appendix, shall be deducted pro rata from the Investment Options of participant Accounts on a quarterly basis. The total amount deducted

from participant Accounts shall be sufficient to sustain the needs and parameters of the Plan Expense Reimbursement Account.

To ensure proper alignment with plan expenses, fee amounts shall be reviewed and approved by the Board annually prior to the start of the new fiscal year, and when the Plan experiences a service contract renewal cycle. Fees shall be adjusted and reassessed as necessary, based on the review.

For new participants, fees (as defined in this policy) shall be waived for the first two quarters or until the account balance reaches \$1,000, whichever occurs first.

VI. PROCEDURES FOR PLAN EXPENSE REIMBURSEMENT ACCOUNT

The Third Party Administrator shall deduct the necessary fees from each participant account on a quarterly basis. The fees shall be held in the Plan Expense Reimbursement Account until withdrawn in accordance with this policy; except the Third Party Administrator Fee which can be applied immediately in accordance with the contractual agreement.

To maintain sustainability, the minimum amount retained in the Plan Expense Reimbursement Account shall be 150% of the current fiscal year approved budget, plus the Plan's investment consultant contract fee. The maximum amount of the Plan Expense Reimbursement Account shall be 250% of the current year approved budget, plus the Plan's investment consultant contract fee.

If the Plan Expense Reimbursement Account balance exceeds the maximum amount, PERA is to direct the Third Party Administrator to implement a fee holiday for an upcoming quarter(s), until compliance with this policy is achieved.

VII. MUTUAL FUND REVENUE

Mutual fund revenue shall be applied to the respective participant accounts that generate the revenue. Such revenue shall include 12b 1 revenue and sub transfer agency fees, and any administrative services fees paid to the Third Party Administrator by the mutual fund companies.

By signing this Fee Policy, the Board has approved this policy by majority vote and authorizes the Chair to adopt this Policy along with the Appendix.

Adopted On: _____

By: _____
Claudia Armijo, PERA Board Chair

APPENDIX — FEE STRUCTURE

Per participant fees	Service
\$10 + 0.135% of balance; capped at \$104/year	Third Party Administrator Fee through 9/30/2027
\$100,000/year	Investment Consultant Fee through 9/30/2023
\$145,500/FY23	PERA's Projected Internal Operating Fee/One Full Time Employee: <ul style="list-style-type: none"> • Personnel Services and Employee Benefits \$116,400 • Contractual Services \$10,000 • Other \$19,100
Total: \$245,500	Breakdown of per participant PERA internal operating fee: <ul style="list-style-type: none"> • 22,701 average chargeable participants from FY22 • \$245,500 / 22,701 = \$10.82/year • \$10.82 / 4 quarters = \$2.70/quarter • Final operating fee smoothing rate = \$3/participant/quarter

**New Mexico
Public Employees Retirement Association
SmartSave Committee Meeting
September 13, 2022**

1. Call to Order

This meeting of the New Mexico PERA SmartSave Committee was held on the date cited above via Zoom tele/video conferencing. Chair, Lawrence Davis, called the meeting to order at approximately 9:00am.

2. Pledge of Allegiance

Shirley Ragin led the Pledge of Allegiance.

3. Roll call

The meeting attendance met quorum with the following members present;

Committee Members Present

Lawrence Davis
Shirley Ragin
Francis Page
Roberto Ramirez

Committee Members Absent

Maggie Toulouse Oliver

Other Board Members Present

Paula Fisher
Diana Rosales Ortiz
Claudia Armijo

Staff

Greg Trujillo, Executive Director
Trish Winter, Executive Assistant
Anna Williams, Deputy Director
Michael Shackelford, CIO
Kristin Varela, Interim CIO
Misty Schoeppner, Deputy General Counsel
Karyn Lujan, SmartSave Plan Manager
Jessica Trujillo, HR Manager
Geraldine Garduno, Assistant General Counsel
Ron Gallegos, CTO

Others in Attendance

Chris Burciaga, VOYA
Paul Cowie, Meketa

4. Approval of Agenda

Francis Page moved to approve the agenda. Roberto Ramirez seconded. The motion passed by a unanimous roll call vote as follows;

Lawrence Davis	Yes
Francis Page	Yes
Shirley Ragin	Yes
Roberto Ramirez	Yes

5. Approval of Consent Agenda

Shirley Ragin moved to approve the Consent Agenda. Francis Page seconded. The motion passed by a unanimous roll call vote as follows;

Lawrence Davis	Yes
Francis Page	Yes
Shirley Ragin	Yes
Roberto Ramirez	Yes

6. New Business

A. Draft Fee Policy Statement - Review

Chair Davis applauded Karyn Lujan for her work on the policy statement. He stated that he had reviewed it and that there's only one component remaining that would be included in the appendix to the policy. That is the annual budget. He added that the policy statement was very transparent with regards to what the fees are going towards.

Ms. Lujan thanked Chair Davis and gave a quick high-level summary of some sections of the policy statement. She mentioned that the project started in March 2022 whereby the Committee had been presented with information after which they had agreed that the continued use of the Plan's mutual fund revenue share was no longer an effective way to offset expenses.

Ms. Lujan reported that in June 2022, PERA staff had notified the SmartSave Committee that an official fee policy statement was being drafted that would serve as the official guidance on how the Plan will assess fees to cover expenses. The formal recommendation to adopt the fee policy statement would be scheduled for a future Committee meeting.

Ms. Lujan provided an overview of the fee statement policy draft, stating that Section I is the scope of the policy. It provides a summary of what the policy applies to, which is the payment of plan expenses.

Section II detailed the plan's definitions. Most of the definitions were from the plan's existing governing documents. The new definitions included fees, fee holiday, mutual fund revenue, plan expenses, and plan expense reimbursement accounts.

Section III outlined the plan's legal authority and references the plan's applicable governing documents as they relate to the policy. These are;

- Deferred Compensation Act – Section 10-7A-10 states that expenditures shall be charged to participating employees.
- The Actual Plan Document – Section 4.1 states that reasonable fees and expenses may be incurred on behalf of the plan. Section 5.3(a) states that expenses of administering the plan shall be deducted from Plan accounts.

Section IV detailed the purpose of the policy. This section acknowledges the intent to implement sections 10-7A-10 of the Deferred Compensation Act, as well as sections 4.1 and 5.3 of the Plan Document. It also refers to the Uniform Prudent Investor Act, the same as the Plan's investment policy.

Section V detailed the actual policy for fee remittances. (See slide presentation). The section acknowledges the plan's fee waiver for new participants. The Plan waives the quarterly fee for the first two quarters or until a participant's balance reaches \$1000.

Section VI outlined the actual procedures for the plan expense reimbursement account. Ms. Lujan mentioned that the plan expense reimbursement account is an account that's held at VOYA. The mutual fund revenue share that gets pooled every quarter is housed in this expense account. It is normal for plans to have and it is in the custody of the record keeper.

The Plan expense reimbursement account is only to be used for two items; PERA's operating fee and the investment consultants' fee. The procedures (four) are as outlined in the slide presentation. Ms. Lujan stated that there will be a quarter or two where participants will not be charged the fee because the expense account will be at a healthy balance that can be utilized.

Mr. Page inquired if there had been a discussion about adding a second position. He thought there had been one several months ago. Ms. Lujan stated that there had been no discussion. Ms. Lujan indicated that the Plan is currently okay and that audit policies had been established that she had taken on herself. As of now, one position is what the plan is budgeted for.

Mr. Page asked about a backup for Ms. Lujan. Ms. Lujan stated that whenever she is not available, several people act as her backup. These are VOYA, which is the plan's record keeper, two administrative operating staff, and one local administrative assistant.

Ms. Lujan stated that Section VII outlined the mutual fund revenue. Since the Plan will no longer use mutual fund revenue shares to offset plan expenses, there is now a policy that revenue shares will be applied back to applicable participant accounts that generated the revenue share.

Ms. Lujan mentioned that the two sections that the Committee should discuss were Section V and Section VI. A portion of Section V states that the policy is to be approved by the Board every fiscal year. Ms. Lujan thought that since the fee would not be changing once it is established, it would not need the Board's approval.

She added any necessary changes to the fee amount would have to the Committee for approval. The plan's budget will be included in the appendix. Ms. Lujan, thus, felt that changes can be presented to the Committee as informational every year and then the appendix is updated as needed.

Chair Davis stated that the need to approve every year rose from the fact that the Board reviews its charters every year. He stated that if the Committee creates a budget, it would have to happen before PERA's normal operating budget is created. Any changes that occur would have to be included in the budget and reviewed and approved by the Committee before being included in PERA's normal budget.

He felt that approval every year would promote transparency. It would inform the participants of what they are paying for and that somebody is reviewing it every single year. He mentioned that if there are minor modifications for 10 years, the Committee or the Board would never see the policy or approve it again and that would be a lack of oversight on the part of the fund's fiduciaries.

Ms. Lujan reiterated that the policy could be presented before the Committee every year with the appendix showing the updated PERA's budget numbers. Actual historical numbers could also be shown if necessary.

Chair Davis stated that the actual numbers should be shown for full transparency. That way members who are participating in the outstanding benefit would not come back with questions about the \$3 charge. He proposed inserting historical actuals as far back as they could go as either appendix A or B.

Mr. Page echoed Chair Davis's sentiments. He said the extra look every year is important to the membership to ensure they know what they are paying for. He pointed out that interest rates are approved every year and he felt this should be done every year.

Ms. Ragin also voiced support for adding the actuals in the appendix every year for transparency purposes. According to her, it might reduce questions that might come up.

Ms. Lujan stated that she will keep the paragraph on Section V as is but will clean up the language a bit. In Section VI, the procedures for plan expense reimbursement, Ms. Lujan stated that the minimum number they had come up with were one year's worth of budget plus 25%. The maximum is two years' worth of budget plus 25%. Ms. Lujan mentioned that she had been trying to figure out if \$3 will be sufficient but the only numbers she had to work with were COVID numbers.

Ms. Lujan mentioned enrollment numbers are not as high as they were pre-COVID because buildings are not fully staffed. The outreach seminars are not reaching the same number of employees that they would have. The low numbers indicate the number of new enrollments is not exceeding the number of participants terminating and cashing out their balances. There are, therefore, fewer participants to charge the \$3 to.

She has reached out to VOYA and some other resources to see what minimums and maximums other plans have with their policies. Some plans don't name a minimum or a maximum, while others don't have a cap on their maximum. They just let the balance go and then implement a fee holiday once it gets to a certain point.

Ms. Lujan thus felt it would be wise to increase the maximum to account for the unknown number only until the Plan gets past the COVID stage and a steady increase in enrollments is seen. She will go back to the drawing table with other staff to look at the numbers again and ensure that the Plan is covered and can account for inadvertent things like global pandemics.

Chair Davis stated that the 225% did not include consultant contract fee. He felt that it was a bit high since the Committee will be reviewing the policy every year. He added that members should not have to pay more than they have to, to participate in the Plan.

Mr. Page inquired about the status of the plan as per today's numbers. Ms. Lujan stated that the average number of new enrollments for FY '22, '21, and '20 are 1,798. The average number of participants terminating and cashing out their balances for the last three fiscal years is 2,721. Pre-COVID, the number of new enrollments was higher. She reiterated that basing the \$3 on historical numbers would mean basing it on unusual numbers.

Ms. Lujan further stated that the current account balance is almost 225%. It's at \$40,000 to \$50,000 below that. Therefore, everyone would be starting on an even playing field.

Mr. Page said letting members know they might get a fee holiday would get them to join faster. He also felt that the maximum number should be 250%. Ms. Lujan stated that even if the 225% or 250% seemed a bit excessive, there will always be a tax holiday in the future. It will only be pulled if the expense account gets below the maximum.

Mr. Page reiterated that that would be the main selling point. He mentioned that he does a lot of personal investing with other companies that either have minimum fees or no fees.

CIO, Michael Shackelford, stated that from his experience working at a mutual fund, it would not be advisable to change fees a lot. He felt that having the 125% to 225% range gives the Plan some flexibility since it will be easier for the plan to give fee holidays than to tell members that their fees will be increased. It will prevent the need to have to change the fees in case of a crisis in the future.

Ms. Ragin echoed Mr. Shackelford's sentiments, adding that it would be prudent to write something that dictates a different course of action during an emergency or an unforeseen circumstance that would cause the numbers to fall outside those ranges.

Greg Trujillo, Executive Director, stated that apart from unforeseen emergencies, some smaller things might also require that flexibility. He mentioned that several years ago, PERA had a higher-than-normal legal expense. He thus felt that during audit time, Ms. Lujan might need extra assistance so she needs to have a sufficient budget to cover that cost.

Chair Davis asked that this item come before the committee at an October meeting and then to the full Board at the end of October to ensure that the policy statement is done before the calendar year-end.

B. Q4 FY22 (June 2022), Investment Performance Review

Paul Cowie from Meketa gave a brief overview of the investment performance review. He mentioned that it was a very eventful second quarter with similar themes to what was seen in the first quarter with the markets trying to digest a new environment of inflation.

He stated that the interest rates rose by roughly 2%. The result of this was that the start of the year was the worst ever for the bonds market. At the same time, the equity markets were poor. This was a rare environment where stocks and bonds performed similarly. The drop seen in the bond market was normal in a market correction since it was a bear market territory. The drop of roughly 10% for the first six months of the year was unprecedented. It was a function of the market changing its tune to interest rates.

Mr. Cowie stated that with the negative market, a big drop was seen in assets. At the end of the second quarter, the Plan was at \$716.6 million, down from about \$801 million in the previous quarter. However, positive inflows of about \$600,000 were seen in the last several quarters. Enrollment has been a challenge since COVID, but on the asset side, a slight shift was starting to occur.

In terms of the top five options, the lifecycle portfolios continued to be the largest at \$196 million, which is about 27%. The performance of the life cycle portfolios indicated that bonds were down 5% in the second quarter, bringing their year-to-date return down 10%. Stocks were down 16% in the second quarter. The New Mexico Conservative portfolio was down about 6% while the 2060 fund was down about 12% in Q2.

Despite the very negative returns, the peer rankings in the quarter, in the last year indicate that they're at the top of their peer groups. In the quarter-to-date and 1-year periods, they're in the top decile for all the funds.

C. Q4 FY22 (June 2022) Plan Activity Review

Ms. Lujan reported that the asset value of the Plan was just above \$716 million. The high-water mark has been in the eight hundred million arena.

The current participation rate is 22,998 participants. The average number of new enrollments has not exceeded the average number of participants terminating and cashing out. This resulted in stagnant overall participation.

There were 625 new enrollments, the highest number in the fiscal year. This can be attributed to the filling of the vacancy of the outreach rep in Northern New Mexico. It makes a huge difference when one person is covering their whole territory as opposed to one person covering two territories.

The outreach numbers of group meetings and group attendees doubled from Q1 to Q2. Group meetings went from 70 to 105. Group attendees, from 546 to over a thousand. Ms. Lujan expressed hope that the Plan was past the COVID hurdle and was getting to the pre-COVID enrollment numbers. She would discuss some ideas with Mr. Trujillo on how to resolve this challenge.

Chair Davis appreciated Ms. Lujan's presentation, adding that she breaks down the information in a way that makes it easy to see who's participating in which single investment.

Mr. Burciaga reported that the number of people utilizing the web and mobile apps was increasing. He added that they also usually perform a confidence factor where they try to gauge how participants feel about the plan. So far, the number of people who indicated that they were highly confident was high. The charts also indicated that the Plan is very healthy.

Ms. Lujan reported that she will be attending the NAGDCA Conference together with Mr. Burciaga. There will be a whole workshop on participant fees, which she will attend and bring back any information that will be relevant to the fee policy. She will contact the Committee members with any changes before bringing the policy statement back for an official vote in October.

Chair Davis asked if there had been cases where participants were pulling out their money due to the fires in Northern New Mexico. Ms. Lujan stated that only eight pulled out their money in total and there haven't been any cases since May.

7. Adjournment

With no other business to discuss, Chair Davis adjourned the meeting at approximately 9:58am.

Approved by:

Lawrence Davis,
SmartSave Committee Chair

ATTEST:

Greg Trujillo, Executive Director