

**NEW MEXICO
PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
SMARTSAVE COMMITTEE MEETING**

June 8, 2021

This meeting of the Public Employees' Retirement Association SmartSave Committee was held on the date cited above via Zoom tele/videoconferencing. Francis Page, Acting Chair, called the meeting to order at approximately 9:04 a.m.

1. Pledge of Allegiance and Roll Call

Loretta Naranjo Lopez led the Pledge of Allegiance. Trish Winter, Executive Assistant, undertook the roll call. Meeting attendance met quorum with the following members present:

Committee Members Present

Francis Page
Roberto Ramirez
Loretta Naranjo Lopez was appointed to the committee.

Other Board Members Present

Diana Rosales Ortiz
Lawrence Davis (arrived 9:08 am)
Paula Fisher (Arrived 9:20 am)

Staff

Greg Trujillo, Acting Executive Director
Susan Pittard, General Counsel
Trish Winter, Executive Assistant
Anna Williams, CFO
Misty Schoeppner, Deputy General Counsel
Kristin Varela, Interim CIO
LeAnne Larranaga Ruffy, Interim Deputy CIO
Karyn Lujan, SmartSave Plan Manager
Jessica Trujillo, HR Manager
Geraldine Garduno, Assistant General Counsel

Others in Attendance

Charles Burciaga, Voya
Paul Cowie, Meketa

2. Approval of Agenda

A motion to approve the agenda was made by Ms. Naranjo Lopez and seconded by Mr. Ramirez. The motion to approve the agenda passed by roll call vote as follows:

Francis Page Yes
Roberto Ramirez Yes
Loretta Naranjo Lopez Yes

3. Approval of Consent Agenda

A motion to approve the consent agenda was made by Mr. Ramirez and seconded by Ms. Naranjo Lopez. The motion to approve the consent agenda passed by roll call vote as follows:

Francis Page	Yes
Roberto Ramirez	Yes
Loretta Naranjo Lopez	Yes

4. New Business

A. Q3 FY21 (March 31, 2021) Investment Performance Review

[Exhibit 1: Q3 FY21 (March 31, 2021) Investment Performance Review]

Referring to page 19 of Meketa Investment Group’s Quarterly Report, Mr. Cowie advised that value stocks outperformed growth stocks in this quarter. He noted that while stocks for companies like Amazon, Facebook, and Apple lead the market in 2020, as economies have opened again, there has been a shift in focus by value managers to energy and financial stocks in 2021. He said this change in focus had helped strategies, and they were happy with returns such as from Dodge & Cox, which was up 15.9% so far for 2021, and over 75% over the last year. He noted that Fidelity Contrafund, one of the funds more focused on growth stock, had a great 2020 but had fallen back a little bit in 2021, as would be expected, but still showed good longer-term results. He also noted that Fidelity Diversified International, another more growth-oriented strategy had delivered flat returns in the quarter to date, but also still showed nice returns over the year.

Referring to page 20 of the performance report, Mr. Cowie said this showed the last group of active options – all equity funds. He said that the active equity option, American Funds, had underperformed a little in the quarter, however, its longer-term returns were very good versus benchmarks and peers. He repeated this was a function of the focus on growth stocks which had been in favor until a quarter ago, so things were reverting to the mean a little. He advised that Fidelity Low-Priced Stock and Dimensional Small Cap Core were funds currently under review with staff, and they would be looking to replace these with one single small cap option. He said that the longer-term returns of Dimensional are not great and that they are more of a small cap strategy focused on value. He commented that they thought Core, which has attributes of value and growth, would make more sense. He said Fidelity Low-Priced Stock has been a strong performing fund but does not fit within the program and as it has attributes of other funds already in the plan there was a bit of overlap, and that it also invests meaningfully in international stocks. He said they considered it did not have a good place within the investment structure of the plan, so they would also be reviewing this in the next quarter.

Referring to the Extended Choice options on page 21 of the performance report, Mr. Cowie reminded the Committee these were lightly used options at about 2% of the plan's assets or \$15.5 million in total. He said this included such things like Emerging Markets Debt, Commodity Strategies, REITS, and Emerging Markets. He said these all had very positive returns except for the Wellington Emergency Markets Debt fund, which was also impacted by the rising interest rates of the Fixed Income Fund, but still had positive returns over the year. He also noted that Invesco Global REITS had been underperforming of late. He said they were closely monitoring this fund and hoped to have action later in the year.

Referring to page 22 of the performance report, Mr. Cowie noted that the Prudential Real Estate fund and Columbia Institutional High Yield, are options that only exist within the Lifecycle Portfolio as subcomponents of those funds, and so are not standalone options for participants to select. He said that relative to other fixed income funds, High Yield was still showing positive returns, up over 21% over the trailing year, whereas other fixed income assets have been negative. He said the Prudential Retirement Real

Estate fund had delivered fairly modest returns over the last year, especially compared to equity returns that are up 50%, but that they did not experience the same downturn early in 2020 that equities did, which they were pleased with. He said it was delivering stable returns and provides good diversification within the Lifecycle portfolios.

Speaking to the detail of the plan expenses given on page 30 of the performance report, Mr. Cowie pointed out that a real advantage of this plan versus one that participants might be able to get on their own in the marketplace was shown by the average expense ratio for investment options in this plan being about 36 basis points. He said they focus on reviewing expenses to keep them as low as possible improve returns. He said they considered it a competitive option when comparing the median expense ratio for most of the funds, in most cases they were lower than average mutual funds in the market.

B. Q3 FY21 (March 31, 2021) Plan Activity Review

[Exhibit 2: Q3 FY21 (March 31, 2021) Plan Activity Review]

Ms. Varela informed the Committee that Ms. Lujan would present the Plan Activity Review for the March 2021 quarter.

Referring to the participation balance summary on slide 3 of the review, Ms. Lujan commented that as previously mentioned by Mr. Cowie, the fund was performing well. She noted net asset value of the plan was at an all-time high of \$772.8 million.

Referring to the participant rate summary on slide 3 of the report, Ms. Lujan said this showed plan numbers for a full year from March 2020 to March 2021. She noted that the participation rates had decreased over this period, and so now would be a good time to assess how the pandemic affected the plan.

Referring to a question raised in the previous SmartSave meeting by Mr. Neel on the average numbers of participants enrolled every quarter, she said she had reviewed these numbers more closely. She commented that while the numbers look like they are getting lower, every day one or more participants leave the plan and cash out their balances. However, because there may also be new enrolments at the same time, then the rate of participant numbers remains somewhat steady.

Referring to the enrollment summary on slide 5, Ms. Lujan noted there was a positive upward direction shown. She reminded the Committee that the previous slide showed participants with an account balance, whereas slide five represented new enrollments. She said some of the new enrollments could be included in the 23,000 participants, but a lot of new enrollments were not yet counted in the total participants because contributions do not necessarily start immediately upon enrollment, depending on when in the month one enrolls.

Ms. Lujan said she had reviewed numbers of enrolments from 2018, 2019, and 2020, and that basically, new enrollments halved in 2020 during the ongoing pandemic. She said new enrolments in 2018 were about 664 per quarter, in 2019 about 616 per quarter, and 2020 about 353 per quarter. She commented that the 2020 reduction was primarily due to everything being shut down. She said the outreach team is not able to have in person seminars/meetings, and that while the use of Zoom was slow to start, in the third and fourth quarter of 2020 people take advantage of it. She said she also thought that pandemic panic may have resulted in people stopping contributions to their investments, moving all of their balance into stable value, lowering contributions, or not being ready to start contributing at that time. She said the last quarter had provided a good assessment of how the pandemic actually affected numbers. She noted that it was pleasing that the last quarter had shown an increase in new online enrolments.

Referring to the outreach meeting activity shown on slide 28, Ms. Lujan noted that these were very low in 2020 because the outreach team was not able to have their usual meetings in person due to the pandemic. She pointed out that in 2019 and 2020, their activity numbers were at 200 to 300 each quarter. She said this shows the outreach team does affect bringing in new enrollments and increasing participation in the plan, but they would not know how this affects the plan until everyone is back to normal and local governments open back up. She said while some organizations are opening up and having group meetings again, most are still doing everything on Zoom. She also noted that a lot of employers are not undertaking true new employee orientations. She said everything was somewhat slow-moving.

Referring to the information on participant engagement presented on slides 15 to 26, Ms. Lujan said there had been a good opportunity to engage with current participants, increase their knowledge about their balance and contributions, and what they can do to improve their retirement outcomes. She reminded the Committee that Voya had presented digital engagement in the last quarter, and how they were contacting participants with customized messaging on how to improve balances. She noted that numbers and information presented in the slides on digital engagement showed that current participants were active and engaged and taking advantage of features available in their online accounts including increasing contributions and updating asset allocations.

Questions and Discussion

Chair Page asked whether retired members who have not closed their accounts could make further contributions. Responding, Ms. Lujan said that retired members could not contribute because contributions have to be done through payroll deduction directly to Voya and are tax deferred. She advised that retirees could work on their asset allocation, and if they have other balances in other plans such as IRAs and 401Ks, those can be moved into the plan.

Mr. Burciaga, Voya, reminded the Committee they had reviewed touchpoints in the previous quarter and reemphasized that the data is telling a good story about how the SmartSave plan is responding to people and how participants are utilizing it. He noted that he wasn't aware of stats that may have been available before the plan transitioned to Voya, but that engagement numbers are strikingly high. He said Voya compares a plan's performance to their other lines of business, such as large and mid-market 401Ks, higher education, and other governmental plans, and that on every measure the SmartSave plan is performing exceedingly well. He reminded the Committee one measure they were particularly happy with is that about 78% of PERA participants have accepted e-delivery as the way to get their statements, which tells him that participants are engaged in seeing how their accounts are performing. He commented that many statements sent by postal mail may accumulate and never be opened. He said that when a participant registers to receive statements by email, the chances are high they are opened and downloaded.

Referring to the myOrangeMoney activity shown on slide 16, Mr. Burciaga highlighted the high numbers of participants engaging with the features within this technology, making decisions, and taking action. He noted that in the last quarter almost 11,000 participants accessed their accounts through myOrangeMoney. Of these, 10,200 or 94% took an additional step within the platform. Of those, 4,600 employees or 45% interacted by modeling goals such as how changing their contributions would impact paychecks or how a change in anticipated retirement date would impact progress towards this goal. He said of that number 514 or 11% made a decision and took action to do something. He reminded the Committee of his remarks at the previous meeting that in the days of postal mail only a response of 2% to 3% was considered a huge success. He said now, looking at 94% of participants looking at the information in the tool, then 45% interacting with it, and then 11% taking action was a testament to how employees are responding to the design of SmartSave, and the work undertaken by Ms. Lujan and team on the deployment of the tool with both Voya and participants.

Ms. Lujan further explained that it was important to understand that the email advice participants receive to say their statement is ready requires them to log in to their account to view it, which is a significant step in itself. She said this process then starts engagement with the tool as participants not only locate the tab within the tool to find their statement, but they may also go through the other exercises available within their accounts.

Mr. Burciaga advised that Voya's outreach team also measure participants' feelings about their investment and retirement, such as their emotional attachment, by way of a confidence index. He said of the PERA participants who responded to their outreach, 60% had a 6.5% confidence score out of a score of one to seven, which is a high level of satisfaction in confidence in their retirement plan and the results of the plan. He compared this to Voya's other business, such as large 401K plans, at 54%. He said they were proud of PERA's higher scoring in terms of employee confidence, and it was a telling stat for the Committee.

Referring to the average balances by age, as shown on slide six, Ms. Rosales Ortiz commented on the last three age groups encompassing people aged 41-61 in the workforce and with the most money invested. She said this was the age group often intimidated by new technology, and who would pass on to their peers their experiences. She suggested that this age group could be reached to increase enrolment. She said she thought these would also be people eager to withdraw their money if something happened. She commented that while there had been much uncertainty in the world in the past year, with things returning to normal, maybe a different approach could be taken to approaching people in this age range to understand how they are doing.

Responding to Ms. Rosales Ortiz, Ms. Lujan referred to the participant engagement activity shown on slide 15. She said although there was concern with the transition to Voya and online options that they would only reach the younger generation, the numbers show that those in the older age group are using the website. She noted that the technology would not be replacing paper or personal contact and that there would always be a paper forms option available for those more comfortable with it, along with in-person engagement.

Chair Page asked about loans taken out by participants, and whether loans were being paid back.

Responding to Chair Page, Ms. Lujan said the loan option has always been a part of the plan that participants have used. She reminded the Committee that the passing of the Cares Act because of COVID allowed participants more flexibility for borrowing from their accounts. She said there was a subsequent increase in loan activity, and that she believed the current loan balance to be almost \$12 million. She said she did not necessarily think there were any trends with participants struggling to repay loans. Speaking from her experience interacting with participants, she thought some participants who take out loans intend to pay them back and do, while others intend to default and do not pay them back, and that was a trend before 2020. She said that some people were paying back loans taken out, and some take out another after they repay the previous loan. She noted people not repaying loans are liable for the taxes for the respective calendar year.

Mr. Burciaga added that many people do not remember that a loan results in double taxation on borrowings. He explained that the money going into the plan is pre-tax and when money is taken out via a loan it is then paid back with after-tax dollars, and then gets taxed again when money is taken out of the plan as ordinary income. He said that one of the reasons why they built a loan modeling feature into myOrangeMoney was to show participants the impact of taking a loan. Referring to the information on slide 18, he said in the last quarter 610 participants used this loan modeling tool, with 193 then deciding not to take a loan. He reiterated Ms. Lujan's comment that there is a cohort that will borrow regardless, but

the data showed that 30% of people using the guidance in the tool had understood the information provided and tax savings and not subsequently taken a loan, which was a good thing.

Ms. Lujan commented that participants must go through their online account to borrow for a loan, which takes them through the education tool of how the loan will impact their balance and affect their retirement security. She reiterated Mr. Burciaga's comments and noted that out of 610 participants who used this tool, almost 200 decided not to take a loan.

Chair Page asked whether PERA or Voya was liable for the defaults and whether it was charged out. Responding, Ms. Lujan said the participant is borrowing money from their account balance, not Voya or PERA. She further explained that if a participant defaults on a loan, the following year they will receive a 1099-R for that outstanding loan balance and would be liable for the taxes on the defaulted amount. As an example, she said if a participant with a \$5,000 balance borrowed \$2,000, they would then have \$3,000 invested. She said if they defaulted, and repaid, say, \$500 only, they would then receive a 1099-R for the tax on the \$1,500.

There were no further questions or discussions on this item.

C. Plan Updates

[Exhibit 3: Plan Updates]

Ms. Lujan provided an update on the plan's annual advice communications campaign. She reminded the Committee that participants have two options for investment advice. One option is a free online program called Financial Engines, where participants can enter various demographic information and the tool will give them investment advice based on what they have entered. The second investment advice option for participants within the plan is professional management by a licensed Voya Retirement Advisor, who manages the participant's account and investments. This professional management has an additional fee of around \$5 per quarter for every \$10,000 in a participant's account and is an optional benefit that participants can opt in and out of at any time.

Referring to the communication strategy and timeline presented, Ms. Lujan said all participants with account balances of \$10,000 or more will receive a series of communications starting in late July. The first would be a simple postcard alerting people to the two kinds of investment options. The second one will be a mailer or an email.

Ms. Lujan said around August all participants with a balance would receive a customized retirement evaluation from Voya. She said this evaluation will look at a participant's balance, contribution rate, asset allocation, and generate for participants what they are currently doing, how it may look in the future, and where they might be able to improve. She said this will be followed with an action piece in late August with options for participants to use the free advice or enroll in the managed account advice.

Ms. Lujan said the campaign is divided into two groups – those with balances of \$10,000 more, and those with balances of less than \$10,000. She said the timeline and marketing pieces for those with balances less than \$10,000 were the same, but that the second group would receive more information on how they can increase contributions and their balances via the tools already available to them, rather than the two advice options. She said they were using a different strategy for those with smaller balances, as she understood that research has shown that people with smaller balances are not interested in investment advice. So, they would receive the retirement evaluation, but different marketing pieces.

Mr. Burciaga added that for participants who do take action and decide to try the management account or advice service, they would have a free period trial of 90 days without a fee. He said this was to ensure that participants are comfortable with the workings of the program and see the value for themselves. He noted that managed account services have resulted in higher balances for people because they are actively and professionally managed, and very few people end up opting out at later date.

Ms. Lujan reminded the Committee this was a marketing feature and part of the PERA SmartSave Plan offerings, and not Voya marketing.


Questions and Discussion

There were no questions or discussions from the Committee on this item.

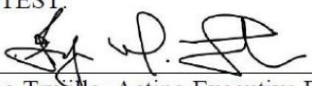
5. Adjournment

Having completed the agenda, Chair Page declared the meeting adjourned at 9:53 a.m.

Approved by:


Roberto Ramirez, Appointed Chair
PERA SmartSave Committee

ATTEST:


Greg Trujillo, Acting Executive Director

Attached Exhibit(s):

[Exhibit 1: Q3 FY21 (March 31, 2021) Investment Performance Review]

[Exhibit 2: Q3 FY21 (March 31, 2021) Plan Activity Review]

[Exhibit 3: Plan Updates]