

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SMARTSAVE
COMMITTEE MEETING

October 11, 2016

This meeting of the Public Employees Retirement Board SmartSave Committee was called to order by Vice Chair Jackie Kohlasch at approximately 9:25 a.m. on the above-cited date in the PERA Building, Senator Fabian Chavez, Jr. Board Room, 33 Plaza la Prensa, Santa Fe, New Mexico.

Executive Director Wayne Propst called roll and a quorum was established as follows:

Members Present:

Jackie Kohlasch, Vice Chair
Dan Mayfield
Loretta Naranjo Lopez
Paula Fisher [appointed]

Member(s) Excused:

John Reynolds, Chair
Tim Eichenberg
Brad Winter

Other Member(s) Present:

Patty French
Dan Esquibel
James Maxon
John Melia
Cathy Townes

Staff Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Jon Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director/Chief Information Officer
Renada Peery-Galon, ASD Director
Natalie Cordova, Chief Financial Officer
Dana David, Assistant General Counsel
Misty Braswell, Assistant General Counsel
Jude Perez, Deputy CIO

LeAnne Larrañaga-Ruffy, Portfolio Manager
Kristin Varela, Portfolio Manager
Emily Lopez, Financial Specialist
Karyn Lujan, Deferred Compensation Plan Manager
Trish Winter, Executive Assistant

Others Present:

Ben Hoecherl, AVP Business Development Nationwide
Paul Lium, Nationwide
Lou Moreno, Nationwide

2. APPROVAL OF AGENDA

Ms. Fisher moved to approve the agenda as presented. Her motion was seconded by Ms. Naranjo Lopez and passed by unanimous voice vote.

3. APPROVAL OF CONSENT AGENDA

Vice Chair Kohlasch said she reviewed the minutes and found them to be in order.

Ms. Naranjo Lopez moved approval. Ms. Fisher seconded and that motion passed by unanimous voice vote.

4. CURRENT BUSINESS

A. SmartSave Plan Participant Investment Behaviors Review

[Exhibit 1: Nationwide Report]

Karyn Lujan, Deferred Comp Plan Manager, said Nationwide conducted a review on different aspects of PERA's SmartSave plan including participants' investment behaviors. Understanding these behaviors will help in providing investment education to the participants.

Ben Hoecherl, Nationwide, said he focuses on analytical work to better understand how participants invest, what drives their investments. Then as a plan evolves, changes can be implemented to provide a positive impact on retirement income.

Mr. Hoecherl reviewed a breakdown of the 19,200 participants and the total balance of \$486 million in SmartSave. The study looks at high level trends and three such trends were identified in PERA's SmartSave: with 13,304 single asset class investors in a single asset class with \$202.5 million invested; asset allocation fund options which offers nine target date funds (TDF) of which 9,985 participants are invested with \$106.5 million; and stable value fund option with 6,894 participants and an investment of \$236.4 million.

Mr. Hoecherl emphasized that PERA's results do not differ greatly from other

funds and further, there are no bad choices instead they could be better. He referred to a graphic that displayed the amount of risk participants are taking on in this plan based on their age. PERA's participant investments appear quite random. He correlated that to young investors with a high allocation to fixed income or conversely a low allocation to equities. It is preferable for de-risking to occur as the participant ages.

Mr. Grabel noted that the graph depicted the numbers in each age cohort which is provided quarterly to the Board. The chart shows the behavior of a population as a whole and typically as a group ages they de-risk. The point is the population as a whole may not be optimizing their asset allocations depicted by the random behavior across all age groups.

Mr. Esquibel said the issue is one of education and how to train investors on good portfolio management. He recommended discussing investment management in the next *La Voz* issue and making sure the new employee is educated about SmartSave.

Mr. Grabel concurred that this is an education issue and pointed out that in the past year structural changes were made, i.e., the default option for the 457B Plan is a TDF. The best point of contact for a participant in a 457B is when they first start working and developing good savings habits. He noted that Ms. Lujan is meeting with HR managers to better educate new employees at orientation. The new name has also been helpful.

Ms. Lujan said there is no special enrollment period for SmartSave, although an employer might have a policy that restricts enrollment. Employer and participant education are the keys.

Ms. Fisher advocated additional Nationwide meetings with new employees.

Vice Chair Kohlasch asked staff to develop a presentation on the 457B plan to better educate the Board.

Ms. Lujan advised the Committee that Bernalillo County is consolidating their optional 457B to SmartSave's target dates/lifecycle funds. Nationwide will conduct re-enrollments with the 700+ county employees and 400 have been enrolled via the easy enrollment form which defaults to the TDFs.

Mr. Grabel pointed out that the vendor consolidation occurring in Bernalillo County is an action taken by that county. One of the principal drivers for this is the change in fiduciary standards for retirement accounts promulgated by the Department of Labor.

Returning to his report, Mr. Hoecherl noted that the lack of diversification with all of their assets in a single asset class fund has a relatively high associated risk. Participants may think they are diversified but if the funds are within the same asset class it is not necessarily diversified.

Ms. Townes said the large number of investors with a lack of diversification alarmed her and she hoped staff could work on this issue.

Ms. Lujan said Nationwide has been very accommodating to employee work schedules.

Mr. Hoecherl reviewed how target date funds are built and highlighted the challenge of educating the participants. A graph showing equity exposure of target date funds by age demonstrated that usage of a TDF does not guarantee appropriate asset allocation. Many participants do not know which fund is most appropriate for their expected retirement date.

Overall, the random-type investment theme was prevalent. Currently, there is an overallocation to the stable value fund indicating over-utilization of the safe option. With a young investor with a long work time horizon, stable value is not an appropriate investment. There is also an imbalance in allocation to fixed income.

Mr. Hoecherl said these investment issues are not unique to New Mexico and he hoped awareness would lead to solutions.

Mr. Grabel said many people approach diversification as choosing a number of funds without concern of which five they chose. Mr. Hoecherl said he does this type of analytic for many of Nationwide's plans and he said PERA's members do better than most.

Regarding the 34 participants with only one investment, Ms. French asked that Nationwide reach out to those individuals.

Ms. Lujan emphasized that having some savings is better than no savings and the fact they are saving is a good thing. Nationwide allows for an annual mass mailing and staff is considering how to best utilize that opportunity. *La Voz*, *Round the Roundhouse*, employer newsletter and quarterly statements can all be used to educate the participants. Educational videos are available on the SmartSave website.

A mass email campaign is being planned for December, stated Ms. Lujan that will focus on asset allocation. A re-enrollment period may be beneficial for members. She said staff works to utilize all existing resources.

Mr. Melia suggested an opt-out form for the Bernalillo participants who will otherwise be defaulted to stable value.

Ms. Townes said DoIT memos appear to receive good response from the agencies.

Ms. French requested that the mass mailing via Nationwide be presented to the Board for review prior to dissemination.

Mr. Grabel said while staff and Nationwide cannot recommend specific funds,

people can be encouraged to save as much as they can.

Ms. Lujan mentioned a MorningStar program that assesses risk levels, time horizons, etc. that is useful for participants.

Next week begins National Retirement Security week and is a great time for people to consider enhancing retirement security and saving more, stated Mr. Grabel.

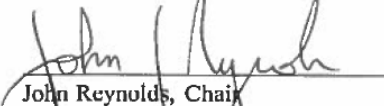
5. OTHER BUSINESS

None was offered.

6. ADJOURNMENT

Upon motion by Mr. Mayfield and second by Ms. Naranjo Lopez, Vice Chair Kohlasch adjourned this meeting at approximately 10:25 a.m.

Approved by:


John Reynolds, Chair
SmartSave Committee

ATTEST:


Wayne Propst, Executive Director

Attached Exhibits:

Exhibit 1: Nationwide Report