

**MINUTES
of the
THIRD MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**August 10, 2018
State Capitol, Room 307
Santa Fe**

The third meeting of the Investments and Pensions Oversight Committee was called to order by Representative Tomás E. Salazar, chair, on August 10, 2018 at 10:05 a.m. in Room 307 of the State Capitol.

Present

Rep. Tomás E. Salazar, Chair
Sen. George K. Munoz, Vice Chair
Sen. Jacob R. Candelaria
Rep. Miguel P. Garcia
Rep. Larry A. Larrañaga
Rep. Jane E. Powdrell-Culbert
Rep. Patricia Roybal Caballero
Sen. John M. Sapien
Sen. Elizabeth "Liz" Stefanics
Rep. Jim R. Trujillo

Advisory Members

Rep. Roberto "Bobby" J. Gonzales
Rep. Bill McCamley
Sen. James P. White

Absent

Sen. Gay G. Kernan
Sen. Carroll H. Leavell
Sen. Steven P. Neville
Rep. William "Bill" R. Rehm
Rep. Larry R. Scott

Sen. William F. Burt
Sen. Carlos R. Cisneros
Sen. Stuart Ingle
Sen. Mary Kay Papen
Sen. William H. Payne
Rep. Sheryl Williams Stapleton

Staff

Tessa Ryan, Staff Attorney, Legislative Council Service (LCS)
Kathleen Dexter, Researcher, LCS
Nancy Martinez, Staff, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file and posted on the legislature's website.

Friday, August 10

Retirement Income Security Task Force

Tim Eichenberg, state treasurer and chair of the Retirement Income Security Task Force, and DeAnza Valencia, associate state director for advocacy, AARP New Mexico, reported on the task force's purpose, composition and guiding principles.

The Retirement Income Security Task Force was formed in response to Senate Joint Memorial 12 (2017 regular session). The joint memorial directed the task force to study New Mexicans' ability to retire in a financially secure manner and to evaluate retirement savings options for those who have limited or no access to employment-based retirement savings arrangements. In addition to State Treasurer Eichenberg, task force members include legislators and representatives from state agencies, nonprofit entities, the business community, labor unions, investment companies and AARP New Mexico.

A study by the University of New Mexico's Bureau of Business and Economic Research (BBER) found that only 27 percent of working New Mexicans over 50 years old have at least \$10,000 in retirement savings, and 56 percent have no retirement savings at all. The study projects that at the current rate, New Mexicans 60 years or older with less than \$10,000 in savings will grow to nearly 500,000 people by 2040. The study also noted that New Mexico has the nation's highest rate of workers without access to a retirement savings plan at work.

The task force developed several guiding principles for its work, including that retirement savings vehicles should be easily accessed by workers, easily implemented by employers, affordable for both employees and employers and portable across jobs. A final report and legislative recommendations will be presented to the committee at its October meeting. Among the recommendations, the presenters noted, will be proposals to create a "hybrid" retirement savings plan for working New Mexicans, improve financial literacy education, create an online marketplace for company savings programs and expand workers' ability to contribute through payroll deductions.

On questioning, the presenters and committee members addressed the following topics.

BBER retirement study. Data produced by the National Institute on Retirement Security is included in the BBER study, which includes both national and New Mexico data.

Retirement insecurity factors. Current factors contributing to retirement insecurity include a shift from defined benefits plans to defined contribution plans, a drop in personal savings and an increase in debt carried by workers as they retire.

Financial literacy. Fidelity Investments, which has a representative on the Retirement Income Security Task Force, has a program to instruct teachers how to teach financial literacy at all grade levels.

Public Employees Retirement Association (PERA) Deferred Compensation Program

Karyn Lujan, deferred compensation plan manager, PERA, and Dominic Garcia, chief investment officer, PERA, gave an update on PERA SmartSave, a deferred compensation program available to PERA members.

PERA SmartSave is a voluntary 457(b) defined contribution retirement plan separate from the PERA defined contribution retirement plan. PERA SmartSave is funded entirely through quarterly fees imposed on participants, and participants have total control over how their savings are invested, with investment options ranging from conservative to aggressive. As of June 30, 2018, the plan had nearly 21,700 participants and assets of nearly \$604.8 million. Of the plan's participants, approximately 14,000 are actively making contributions to their accounts.

One current plan initiative concerns the New Mexico Stable Value Fund, which was the default option for participants until late 2015 and currently represents the entire investment portfolio of approximately 3,200 PERA SmartSave participants. Because the fund was designed more to protect against loss than to yield high returns, it is more appropriate for participants who are nearing retirement than for younger participants. PERA SmartSave staff is drafting a letter to educate participants on more effective asset allocation and portfolio diversification.

A pilot project is under way to test a new system for online enrollment and contribution changes. Ms. Lujan noted that feedback from project participants reveals both successes and challenges. Other initiatives include outreach through special events and social media to increase participation, outreach to participants in public retirement plans other than the PERA, research on the feasibility of auto-enrollment or active enrollment at the point of hiring and a request for proposals for a new third-party plan administrator.

On questioning, the presenters and committee members addressed the following topics.

Contribution caps. PERA SmartSave caps are set at the federal level, not at the state level, and range from \$18,500 per year to \$24,500 per year, depending on the participant's age.

Online functions. Enrollment and contribution management greatly increased when the PERA SmartSave online function was implemented. Participation data, however, is difficult to extract because the plan administrator reports a single total for all transactions.

Employee Retirement Income Security Act of 1974 (ERISA). PERA SmartSave is not subject to ERISA requirements, though the plan does adhere to standards set by that act.

PERA Transparency

Wayne Propst, executive director, PERA, Mr. Garcia and Anna Williams, chief financial officer, PERA, reported on ways the PERA adheres to transparency requirements.

PERA transparency measures include:

- real-time audio and video streams for all board and committee meetings;
- online archives of audio and video streams and minutes;
- independent oversight and review of assets, liabilities and internal controls;
- review of the PERA Comprehensive Annual Financial Report (CAFR) by the Office of the State Auditor;
- online posting of the CAFR, the Popular Annual Financial Report, actuarial valuation reports, General Accounting Standards Board Statement 67 supplemental reports, the manager selection process, investment services procurement policies and periodic performance reviews and summaries;
- net-of-fee reporting and disclosure of expenses online and in legislative committee hearings;
- Sunshine Portal posting of contracts and salaries;
- timely response to Inspection of Public Records Act (IPRA) requests;
- disclosure of investment manager expenses; and
- staff ethics training and code of conduct implementation.

In addition, the PERA board revised its governance policies in 2017 to improve transparency and accountability in its investment process and to delegate investment manager selection authority to PERA staff. Other recent changes adopted by the board include a revised strategic asset allocation and an active risk and return budget.

On questioning, the presenters and committee members addressed the following topics.

PERA board. Members raised concerns over the qualifications of PERA board members and raised the possibility of setting qualifications in statute as has been done for State Investment Council (SIC) and Public Regulation Commission members. Presenters noted that, following the governance changes adopted by the board in December 2017, PERA investment decisions are no longer made by the board but by PERA staff members, who have investment training and experience.

Portfolio management. The PERA portfolio is managed by external investment managers, not by in-house staff. Forty-eight percent of the portfolio is actively managed.

IPRA requests. Most IPRA requests submitted to the PERA concern investment manager selection and come from out of state or from the media.

Legislative Finance Committee (LFC) information. The PERA provides pension and investment information to the LFC for inclusion in the LFC's online dashboards. The PERA also provides the LFC with information on investment fees but does not include this information on its own website due to privacy issues with certain private funds.

Consolidated board. A member raised the possibility of eliminating the separate boards for the PERA, SIC and Educational Retirement Board (ERB) and creating a single consolidated board to oversee investments for all three systems.

Mr. Garcia agreed to provide information on:

- (1) the composition of pension boards in other states;
- (2) the background requirements for PERA investment committee members; and
- (3) the PERA staff's collective experience in public fund investing and free market trading.

Minutes

On a motion duly made, seconded and unanimously adopted, the committee approved the minutes for its June 7, 2018 and July 11, 2018 meetings.

New Mexico-Based Investments of the Severance Tax Permanent Fund

Steven K. Moise, state investment officer, SIC, and Charles Wollmann, director of communications and legislative and client affairs, SIC, reported on investments in the Severance Tax Permanent Fund intended to stimulate the state's economy.

Economically targeted investments (ETIs) are authorized by statute and directed to enterprises based in New Mexico. Increased tax revenue generated through job and business creation is supposed to offset below-market returns that are common with ETIs. Since the program's inception in 1993, the state's primary ETIs have included the New Mexico Private Equity Investment Program, which has been the most effective ETI to date; the Small Business Investment Corporation; and the zero-interest film loan program. Under the film loan program, \$243 million in loans was repaid in full, but only \$2 million in profits was returned to the state before the program was discontinued in 2008. Other ETIs that yielded either low returns or outright losses include Region III Housing Authority bonds and direct investments in failed companies Eclipse, Earthstone and TCI Medical. The SIC has since fine-tuned the ETI program and has created the New Mexico Catalyst Fund to provide seed and early-stage funding for start-up companies.

Up to nine percent of the Severance Tax Permanent Fund may be invested in ETIs. These investments currently account for 6.7 percent of the fund.

On questioning, the presenters and committee members addressed the following topics.

Film loan program. Though the loans were eventually repaid in full and the money spent in-state, the \$243 million invested in films was "parked" for 10 years and unavailable for further investment.

Catalyst Fund. The Catalyst Fund is a "co-investment fund"; an entity that receives money from the fund must also raise investment funds from other sources. The Catalyst Fund includes state, federal and private money.

ETI percentage of Severance Tax Permanent Fund. Members expressed concerns over increasing the amount of the Severance Tax Permanent Fund currently allocated to ETIs. Mr. Moise noted that Sun Mountain Capital conducts a pacing study to gauge investment opportunities and has determined that five percent is a good level for investment in ETIs.

State bank. Members and presenters discussed positive and negative aspects of establishing a state bank for making business investment loans.

Mr. Wollmann agreed to provide information on:

- (1) the percent of return for the portion of the Severance Tax Permanent Fund that is dedicated to ETIs since that program was established in 1993; and
- (2) gains and losses in the Small Business Investment Corporation program over five and 10 years.

Sun Mountain Capital

Brian Birk, Lee Rand and Dan Brooks — managing partner, partner and senior associate, respectively, of Sun Mountain Capital — gave an update on the state's private equity investment program for which their firm serves as program advisor.

The New Mexico Private Equity Investment Program was established in 1993 with the dual goals of achieving solid financial returns and spurring job creation in the state. While investment returns in the aggregate for the program over the past five years range from 8.6 percent to 12 percent, returns since the program's inception are as low as -10.1 percent as a result of investments made prior to 2007. To date, the program has invested more than \$2.5 billion in 38 funds, with 78 New Mexico-based companies funded. Nearly 70 percent of the companies currently in the program are in the health care and technology sectors, with the remainder in aviation, cleantech, energy and other industries.

The presenters used a multiplier factor of 6.1 to gauge the impact of the program on New Mexico: every \$1.00 invested by the program attracts \$6.10 of outside investment to the state.

On questioning, the presenters and committee members addressed the following topics.

Sun Mountain Capital services and fees. Sun Mountain Capital invests state money in New Mexico-based venture capital funds and advises start-up companies on how to navigate the program, apply for funding and attract other resources. The state pays \$195,000 to Sun Mountain Capital in annual investment management fees.

Private equity program adjustments. The presenters noted three possible improvements to the program: 1) expanded investment with new fund managers that invest in New Mexico; 2) additional investment in companies that have already received funds and succeeded; and 3) expansion into investments other than venture capital, such as loans to rural enterprises.

Venture capital. A member expressed concern that the private equity investment program focuses on venture capital when that is not always what a company needs.

Mr. Birk agreed to provide the annual investment plan document for Sun Mountain Capital.

SIC Transparency

Mr. Moise and Mr. Wollmann reported on SIC transparency and outreach initiatives.

The SIC's website, which is updated at least monthly, was recently redesigned to give public access to more information on the SIC's policies, meetings and investments. All policies, including investment policies, are posted on the site, as are financial reports, investment reports, annual investment plans and meeting minutes. SIC meetings comply with Open Meetings Act requirements, and all SIC decisions are made in meetings that are open to the public. The council also welcomes public comment. Archived recordings of SIC meetings are posted on the governor's website. The SIC recently published a 60-year anniversary report that provides historical information on the council and the permanent funds.

On questioning, the presenters noted that the SIC has contracted with Colmore to provide investment fee verification services, with the firm's first report due this month.

ERB Transparency

Jan Goodwin, executive director, ERB, reported on transparency measures incorporated into ERB policies and practices.

The ERB website provides access to actuarial, financial, expense, investment performance and asset allocation reports; policies; the ERB strategic plan; third-party placement agent disclosures; ERB board membership and governance; and meeting schedules and minutes. The website also includes information on the ERB's recent Improving Sustainability State Tour, including a video of the presentation given by ERB staff in 13 communities around the state and results of a recent sustainability survey of ERB members.

On questioning, Ms. Goodwin and committee members addressed the following topics.

Sustainability survey. The survey showed support among ERB members for an increase in the employer contribution rate, a reduction in or suspension of the cost-of-living adjustment and a tiered multiplier for new employees.

Transparency policy. The ERB's transparency policy was initially issued in 2016 and amended in late 2017.

Investments and investment committee. Approximately 30 percent of ERB investments are managed in-house. Returns for fiscal year 2018 were 8.3 percent, which exceeded the overall investment target. Because return targets are not set for all investments, targets are not always reflected in the investment committee's minutes.

All members of the ERB investment committee receive annual investment training, and the committee includes an investment professional. While the committee has authority to make investment decisions, the board retains fiduciary status and responsibility.

Staff salaries. Members discussed the salary increases proposed earlier in the year for ERB staff, how the proposal was portrayed in the media and the public reaction and the need for competitive salaries to retain experienced investment staff.

Ms. Goodwin agreed to:

- (1) investigate the possibility of putting additional ERB information on the state's Sunshine Portal beyond the salary and contract information already posted there;
- (2) provide results from the ERB's member survey at a future Investments and Pensions Oversight Committee meeting, with copies of those results made available to committee members prior to that meeting; and
- (3) meet with Senator Candelaria to review the most recent national public pension fund salary survey.

Retiree Health Care Authority (RHCA) Transparency

David Archuleta, executive director, RHCA, reported on the RHCA's transparency policies and practices, which adhere to provisions in the Open Meetings Act and the IPRA.

The RHCA disseminates information to its members through a newsletter, direct mailings, email, a website and a Facebook page. Board meetings are open to the public, with 10 days' advance notice given for meetings and agendas posted 72 hours prior to each meeting. The board also periodically meets outside of Albuquerque and encourages members to attend. The RHCA website includes information on investments and markets; the plan design; budget, financial and investment reports; annual financial audits; and notices for events, trainings and switch-enrollment meetings. RHCA staff responds to IPRA requests and is trained annually in "sunshine laws". All purchasing complies with the Procurement Code and the Health Care Purchasing Act.

Mr. Archuleta summarized the 2019 plan changes adopted at the most recent RHCA board meeting, notably premium increases for pre-Medicare plans, Medicare supplement plans and dental plans; and a premium decrease for Medicare Advantage plans. Projected deficit spending and the plan solvency period both extend by two years with these changes.

Adjournment

There being no further business, the committee adjourned at 4:07 p.m.