



RETIREMENT SYSTEMS DIVISION

STEVEN C. TOOLE
EXECUTIVE DIRECTOR

To: Supplemental Retirement Board of Trustees
From: Mary Buonfiglio, Deputy Director, Supplemental Plans
Date : September 21, 2017
Re: CEM Benchmarking Report

The CEM Benchmarking Report is a valuable tool for the Supplemental Retirement Board of Trustees (Board) and staff to help assess the Plans' performance. The report's value lies in its analysis of several important Plan features that are monitored by the Board, including fees, fund performance and Total Net Value Added. This memo shares some observations from the report that highlight matters important to the Board and the oversight of the North Carolina Plans.

Active and Passive Management Styles

Report Finding:

While cost is not the only factor to be considered in the assessment of performance, the Plan cost of 0.47% is higher than the benchmark cost of 0.40%. This is primarily due to the use of active versus indexed investment options.

Observation:

Plan expenses will be reduced upon the completion of the Plan Design project scheduled for September 29, 2017. At that time, four white label funds will be closed and two new funds will be created, which hold a greater proportion of indexed assets. In the NC Large Cap Core Fund, investment management fees will decrease from the two former fund fees of 0.37% and 0.43%, to 0.31% on nearly \$2 billion in Plan assets. In the NC SMID Cap Core Fund, fees from the two former fund fees of 0.55% and 0.63% will be replaced with a new fee of 0.55% on approximately \$1 billion.

Stable Value Holdings

Report Findings:

While the Plans' five-year total net return of 8.5% compares favorably to the U.S. average of 8.7% and peer average of 7.8%, performance was offset by more stable value assets, which had lower returns.

Observation:

The weighting to NC Stable Value Fund is higher than the peer group, which points to an opportunity for targeted messaging to participants (particularly those who "defaulted" into SV prior



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to 2010) who steadfastly remain in the NC Stable Value Fund, encouraging them to reassess whether their asset allocations continue to match their retirement plans and risk profile. GoalMaker continues to be an effective tool for assisting participants who would like help in determining the appropriate asset mix for their retirement savings.

Early career participants have been of particular concern to the Board and staff. Staff has analyzed our participant data and determined that, of the approximate 43,000 Plan participants age 25 to 34, 90% hold 5% or less of their total assets in the NC Stable Value Fund. The remaining (approximately 10%) have a higher percentage of their portfolio in the NC Stable Value Fund, representing as much as 35%.

In addition, the "Target & Balanced Fund holdings" reported on page 8 of the CEM Benchmarking Report contains holdings that include stable value funds. This could lead to an under-reporting of the actual percentage of stable value assets represented in peer plans.

Administrative Costs

Report Findings:

The Plans' administrative fees average \$149 per participant, compared to the peer average of \$160, and the universe average of \$383. When converted to basis points, Plan administrative fees are 0.47%, versus a peer average of 0.34%, and a universe average of 0.30%.

Observation:

The NC Supplemental Plans have an average participant account balance of \$33,000, versus the peer average of \$48,000 and the universe average of \$136,000. This difference in average account size explains the difference in the dollar-versus-basis point fee analysis.

As detailed in Mercer's Recordkeeper Benchmarking Report presented to the Board in March, an important factor to consider in the analysis of administrative fees is the service level provided by the Plans' recordkeeper. In particular, the Plans' 16 field educational counselors provide a significant resource for one-on-one, confidential educational assistance to support participants and potential participants, as well as the nearly 1000 employers who offer the Plans.

Summary

Staff find significant value in the CEM Benchmarking Report and hope to continue to use this resource in discussions with the Board about opportunities to better meet the needs of participants, potential participants, and employers.