ERB

Investments and Pensions Oversight Committee

Sustainability & Solvency

Senator Roberto "Bobby" J. Gonzales, Chair
Representative Patricia Roybal Caballero, Vice Chair

July 26, 2023

Discussion Items

- Agency Updates and Reminders
- Investment Update
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- ASOP No. 4 Changes Affecting Public Plan Actuarial Valuations

Agency Updates & Reminders

- New Office Building – January 2025 (18 months)
  - Sale of current office facility in Santa Fe to GSD/PRC
- New Pension Administration System – July 2027 (48 months)
- Cost-of-Living Adjustment (July 1, 2023)
  - 3.60% for retirees with 25 or more years of service credit and whose monthly benefit is less than or equal to the median benefit of $1,720.56 as of June 30, 2022
  - 3.20% for all other eligible retirees
  - 4.0% for all disability retirees who have been retired for at least 3 years
- Return-to-Work (1-year layout) sunsets December 31, 2023
  - Return-to-Work: less than $15K | .25 | 36 months remain in effect and do not have a sunset date

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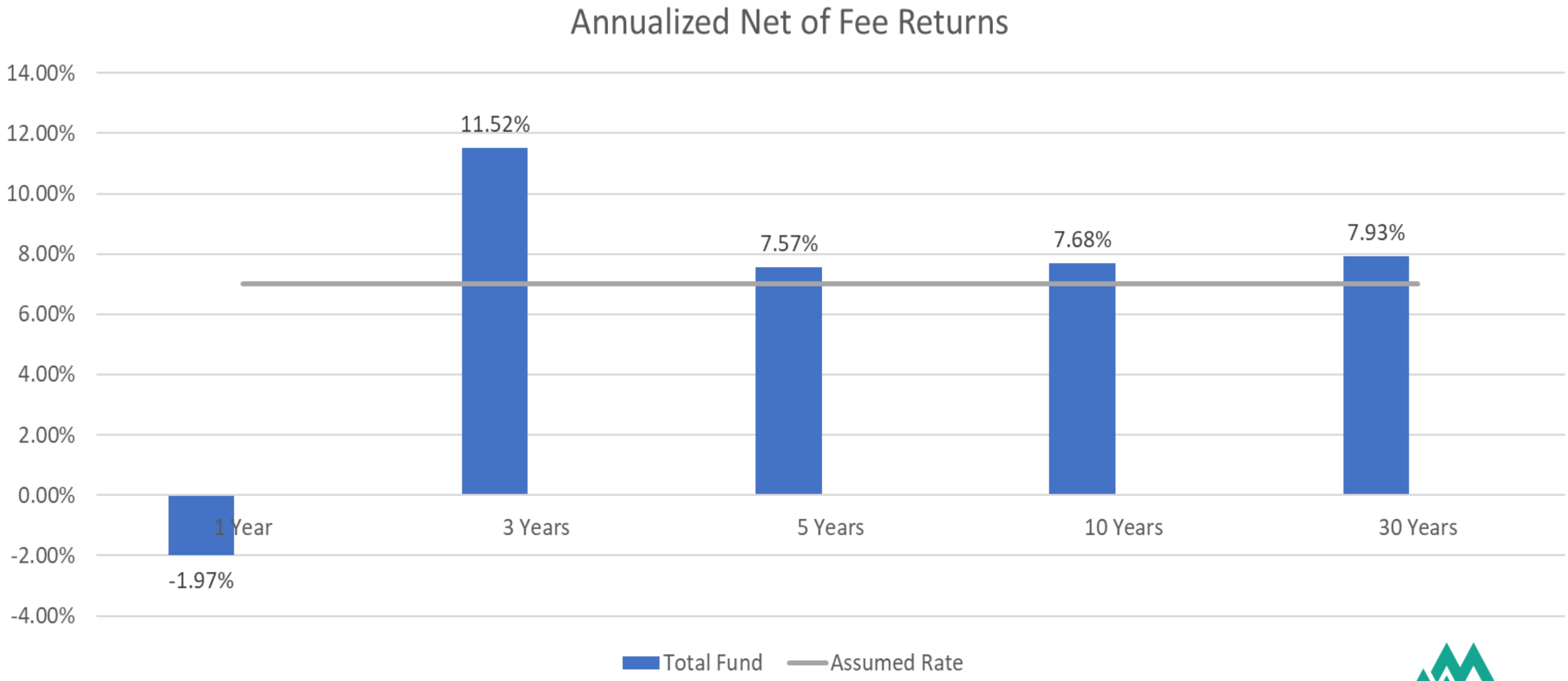
Investment Update Actual Return v. Target – 3/31/23



Agency Highlights

	June 30, 2022	June 30, 2021	Difference
Active Members	59,887	58,988	899
Retirees & Beneficiaries	53,972	52,790	1,182
Retiree Payroll	$1,270,821,870	$1,217,645,352	$ 53,176,518
Average Annual Benefit	24,859	24,454	$ 405
Member Contributions	$ 344,499,120	$ 327,477,585	$ 17,021,535
Employer Contributions	$ 501,926,683	$ 445,654,793	$ 56,271,890
Member Contribution Refunds	$50,692,632	$45,419,111	$ 5,273,521
Active Member Payroll	$3,124,810,720	$2,924,364,375	$ 200,446,345
Participating Employers	220	216	4
Net Assets	$15,550,701,708	$16,361,524,358	$ (810,822,650)

Board of Trustees

Members

- Russell Goff, Chair, New Mexico Association of Educational Retirees
- Mary Lou Cameron, Vice Chair, NEA – New Mexco
- Larry Magid, Secretary, Governor Appointee
- Laura M. Montoya, State Treasurer, Ex-Officio
- Matias Fontenla, American Federation of Teachers New Mexico*
- Mario Sauzo, Designee, Higher Education Department, Ex-Officio*
- Antonio Ortiz, Designee, Public Education Department, Ex-Officio
- Donald Duszynski, American Association of University Professors
- Max Baca, Governor Appointee

*New positions created by Laws 2021, Chapter 78 (Senate Bill 303)

Board Authority

22-11-6 Board; powers; duties.

- Properly and uniformly enforce the Educational Retirement Act (ERA)
  - 2.82.1 NMAC – 2.82.12 NMAC
- Hire employees and delegate administrative authority to these employees
  - 2.82.1.11 – Function of the Board
  - 2.82.1.13 – Employment of Staff
    - Employment of a director
    - Approval of organizational chart
- Make an actuarial report on the financial operation of the ERA to the legislature at each regular session every odd-numbered year
- Accept donations, gifts or bequests to the fund; and
- Adopt regulations pursuant to the Educational Retirement Act

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Key Valuation Results

	June 30, 2022	June 30, 2021
Valuation Payroll	$3.1 billion	$2.9 billion
Actuarial Funded Ratio	63.5%	62.8%
Unfunded Actuarial Accrued Liability (UAAL)	$8.8 billion	$8.7 billion
Normal Cost Rate	13.95%	14.10%
Funding Policy Rate	18.50%	19.21%
Employer Contribution Rate	17.15%/18.15%	15.15%/16.15%
Funding Period	29 years	42 years

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GASB 67/68 Reporting & Disclosure Information

November 1, 2022

- Net pension liability is measured as the total pension liability, less the amount of the plan's fiduciary net position
- A single discount rate of 7.00% (expected rate of return on pension plan investments) was used to measure the total pension liability as of June 30, 2022
- Cash flow projections assume plan members and employer contributions will be made at the current statutory levels
- Contributions are assumed to remain a level percentage of ERB payroll based on the most recent five-year contribution history
- Net Pension Liabilities:
  - Single Discount Rate: $8,421,711,477
  - 1% Decrease: $11,419,137,344
  - 1% Increase: $5,944,381,908

Recent Benefit & Contribution Reforms

Legislation

- 2013 – Senate Bill 115 established a schedule to increase member contributions from 7.90% to 10.70%, modified benefits payable to members hired after 2013, and recued COLAs for most retirees until ERB attains 100% funded status
- 2019 – House Bill 360 increased employer contributions from 13.90% to 14.15% and modified benefits payable to members hired after 2019
- 2021 – Senate Bill 42 established a schedule to increase employer contributions from 14.15% to 16.15%
- 2022 – Senate Bill 36 established a schedule to increase employer contributions from 16.15 % to 18.15%
- <u>All key stakeholder i.e., retirees, members and employers have contributed to the improved long-term solvency of the plan</u>

Laws 2021, Chapter 44 (Senate Bill 42)

- Required ERB to present ways to improve pension solvency without additional employer-paid increases to DFA, LFC, LESC and any other appropriate interim committee
- Summary of possible changes to improve solvency without additional employer contributions:
  - Further reduce COLA adjustments tied to funded ratio
  - Swap COLA for non-compounding 13^{th} check
  - Increase employee contribution
    - 10.7% - $24K or greater
    - 7.9% - $24K or less
    - Lump sum contribution (“one-time dollars”)
  - Reduce service multipliers
- <u>Current projections indicate program stability in the majority of outcomes</u>

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Change Perspective

- Solvency defined as ability to pay promised benefits
  - No immediate solvency concerns
  - Focus on projected plan funded ratios (assets/liabilities)
- Broad range of possible outcomes surrounding funding trajectory
- Contributions + Investment Returns >= Benefit Payments + Expenses
- The plan has undergone many rounds of modifications in the last decade
  - Employer contribution increases
  - Member contribution increases
  - Reductions to new member benefits
  - Conditional COLA reductions
  - Changes in actuarial assumptions – Investment return assumption 7.75% to 7.00% and longer life expectancy

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Cost-of-Living Adjustment (COLA)

- Shares the burden of cost savings across generations and does not further increase the disparity in the value of the employer paid value of member benefits
- Current COLA policy CPI-related – limits range of possible outcomes and adjusts the amount granted downward in periods when the plan is less than 100% funded
  - Adjustment factor = ½ of the increase in the CPI
  - Cannot exceed 4% / be less than 2% - unless CPI is less than 2 percent, then adjustment factor equals CPI
  - Annuitants receive between 80 and 100% of the adjustment factor based on various parameters

Plan Funded Ratio	Retirees w/25 years of service and less than median annuity	All other annuitants eligible for an increase
>=100%	100%	100%
>90% and <100%	95%	90%
<=90%	90%	80%

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Service Credit Accruals

- Currently, members hired before July 1, 2019, (Tiers 1, 2, & 3) earn 2.35% of their Final Average Salary (FAS) per year of service:

FAS (average of highest consecutive 60 months gross salary) x Years of Service x 2.35% = Gross Annual Benefit / 12 = Gross Monthly Benefit

Example: $65,000 x 30 years x 2.35% = $45,825 annually / 12 = $3,818.75 per month

- Members hired on or after July 1, 2019, earn accruals based on the following schedule:

For Service In:	Years	Benefit Percentage
The first 10 years of service	1 - 10	1.35%
The next 10 years of service	11 - 20	2.35%
The next 10 years of service	21 - 30	3.35%
Service after 30 years	30+	2.40%

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Experience Study & Audit

- Last experience study conducted April 2020 based on results of the June 30, 2019, Actuarial Valuation
- Previous study followed June 30, 2016 (3-year period)
- Prior to 2016, experience study completed every two years
- Next study scheduled following June 30, 2023, Actuarial Valuation – Spring 2024
  - Discount Rate
  - Contribution Rates
  - Payroll Growth
  - Employment
  - Mortality Rates
- On schedule with actuarial standard best practices
- Actuarial Audit – Fall of 2024
  - FY25 Appropriation Request

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Low-Default Risk Obligation Measure - *New*

Actuarial Standards of Practice (ASOP)

- Provides guidance to actuaries on appropriate practices
- Actuaries must calculate and disclose a liability using a discount rate tied to a low-default-risk index
  - Treasury Yields
  - Municipal Bond Yields
  - Investment Grade Corporate Bonds
- Intended to show the liabilities for a plan without being exposed to investment risk
- Arguments for LDROM
  - Provides a more “complete picture” of the financial position of the plan
  - Differences between LDROM and the valuation AAL can be seen as the potential savings generated by taking a reasonable amount of investment risk
  - Reinforces decision to be in higher seeking assets
  - Supports changes to investment return assumption if the difference between LDROM and AAL if difference appears too large

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