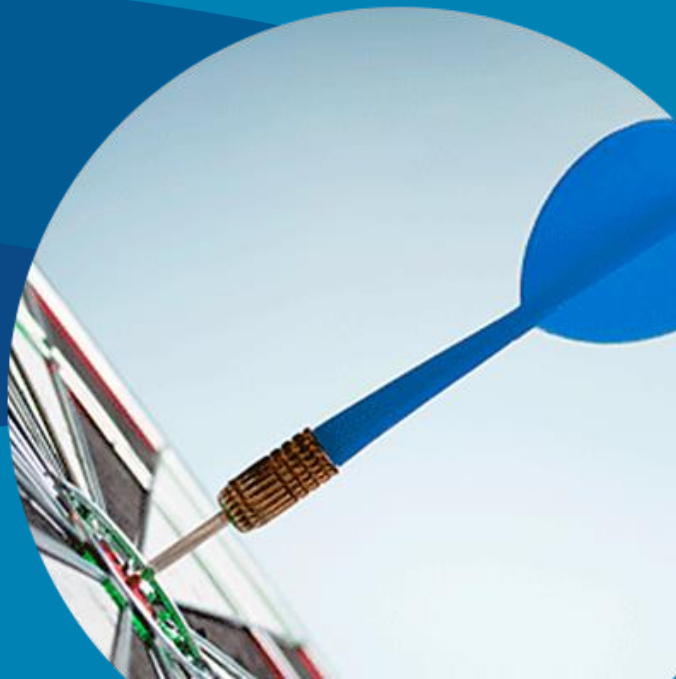
New Mexico Educational Retirement Board Actuarial Valuation Results as of June 30, 2026 and Benefit Adequacy Discussion

Presented to the Interim Investments and Pensions Oversight Committee
Representative Cynthia Borrego, Chair
Senator Roberto “Bobby” J. Gonzales, Vice Chair
by
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November 9, 2026

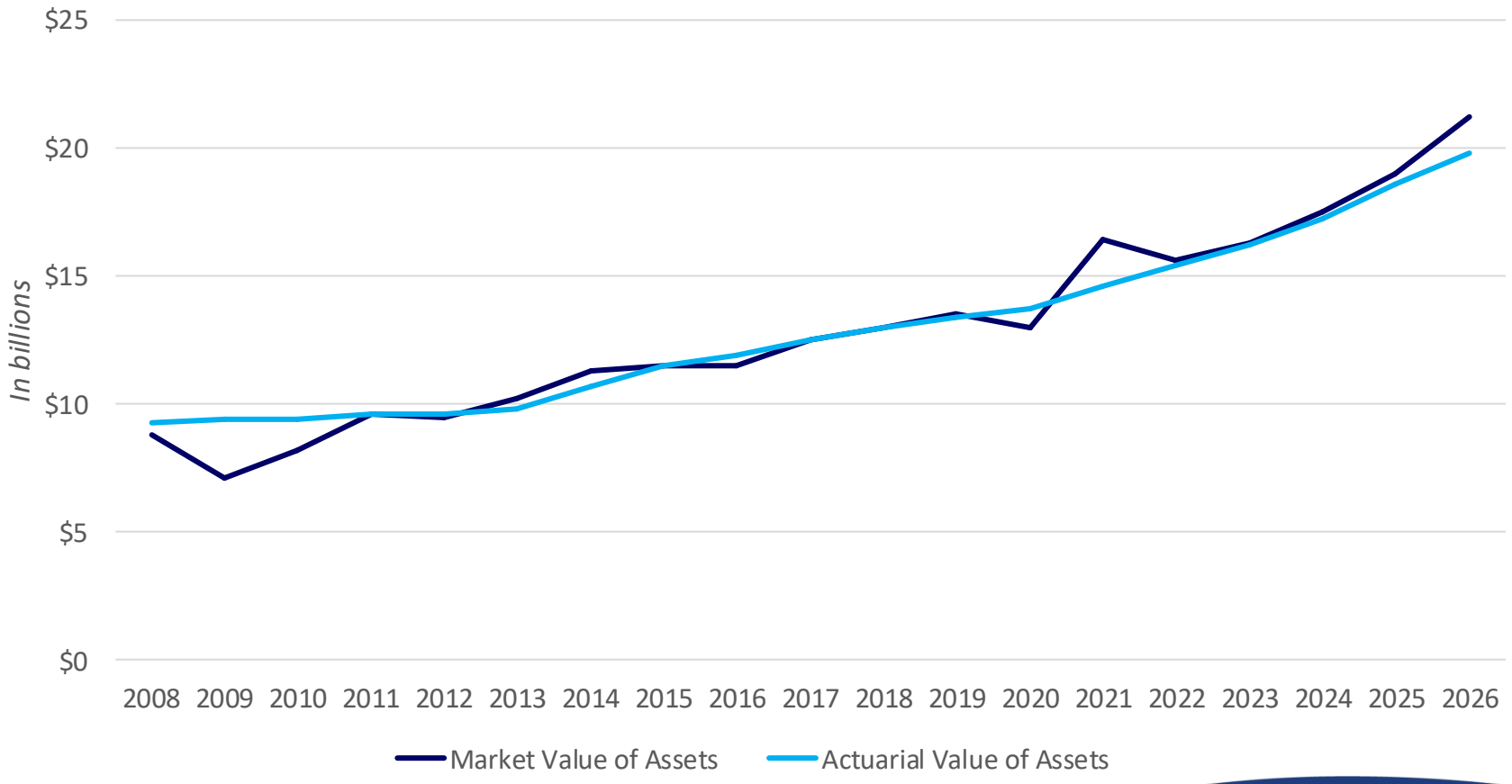


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FY 2026 Plan Experience

- Asset experience
  - 13% return on market value, 7.7% smoothed return
  - Third consecutive year in excess of 7% assumption
  - $136 million asset gain
  - Still deferring $1.4 billion in gains
  - **Helps all results (current and projected)**
- Salary experience
  - Increases more than expected created $154 million liability loss
  - **Hurts funded ratio progress at June 30, 2026, but increases contributions going forward so does not significantly change longer term trajectory**
- **Overall = funding levels as of June 30, 2026 as expected, improved forward looking results (ADC, years to full funding)**

Actuarial and Market Values of Assets



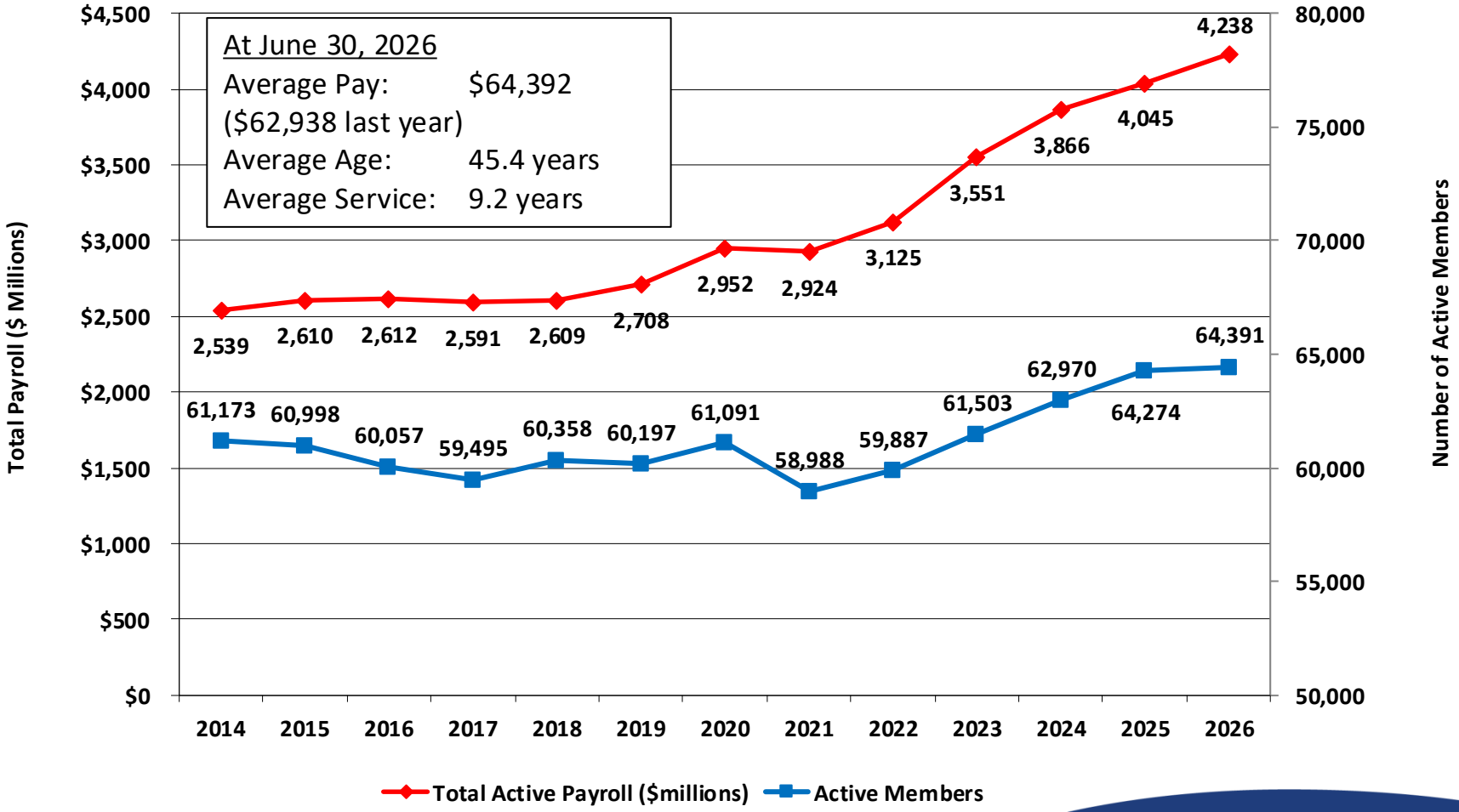
Assets – Market Value

- Cashflows
  - In $1,324 million
  - Out -$1,585 million
  - Net -$ 261 million (1.2% of assets)
  - Typical for a mature DB plan where investment earnings are expected to finance a large portion of benefit payments
  - Was -1.4% LY
- Investment return (approximate, net of expenses)
  - 13.4% FY 2026
  - 7.3% (5 years)
  - 9.1% (10 years)
  - 8.2% (15 years)
  - 7.4% (20 years)
  - 7.0% (25 years) *FY 2001 just dropped off*

FY 2026 Plan Experience

- Active Counts 64,300 -> 64,400
  - Stable

Membership – Actives



FY 2026 Plan Experience

- Unfunded Actuarial Accrued Liability (UAAL)
  - $8.8 billion 2025 UAAL
  - $8.7 billion *Expected* 2026 UAAL
  - $8.7 billion Actual 2024 UAAL
    - $0.1 billion asset gain (smoothed)
    - $0.1 billion liability loss (salary)

Statutory Plan Funding

- Employer Contribution
  - 18.15%
- Employee Contribution
  - 10.7% for members with salary above $24,000
  - 7.9% for members with salary below $24,000
    - ~4,000 members based on current val data
  - 7.25% Alternative Retirement Plan Contribution

Funding Policy

- In November 2018, the Board updated the Funding Policy
  - Established a goal of eliminating the UAAL by June 30, 2049
    - 30 years from June 30, 2019
- Valuation assesses whether funding policy is being met within the current benefit and contribution framework
  - COLAs are adjusted downward while the plan is less than 100% funded
  - New hires come in with a lower normal cost (less expensive benefit) than the average active member
- Funding Policy designed to answer these questions:
  - Are contributions sufficient to eliminate the unfunded liability by June 30, 2049?
  - If not, what contributions are sufficient?

Funding Sufficiency

- Funding period based on statutory contributions is **17 years (2043)**
  - Meeting Board Funding Policy with a bit of breathing room
  - Was 19 years (2045) last year
- Funding Policy Contribution Rate is **15.05% of pay**
  - Less than 18.15% Statutory
  - Was 15.46% last year

Key Valuation Results

	June 30, 2026	June 30, 2025
Valuation Payroll	$4.2 billion	$4.0 billion
Actuarial Funded Ratio	69.4%	67.8%
Unfunded Actuarial Accrued Liability (UAAL)	$8.7 billion	$8.8 billion
Normal Cost Rate	14.06%*	14.13%*
Funding Policy Rate	15.05%	15.45%
Employer Contribution Rate	18.15%	18.15%
Funding Period	17 years	19 years

* *Does not include an additional 0.37% of pay added to Funding Policy Rate for anticipated administrative expenses*

Summary

- Making progress
- Meeting Board objectives
- Positive experience again this past year resulted in *more comfortably* meeting objectives this year
  - Significant deferred investment gains will provide strong tailwind

Benefit Adequacy Discussion

Replacement Ratio
Just the Beginning of the Story

BENEFIT FORMULA

2.35% × 30

years of service

=

PENSION REPLACEMENT

70%

Adequate?

I have no idea. And neither do you — yet.

A replacement ratio is a measuring stick — not a passing grade.

Adequacy Has Three Dimensions

1

HOW MUCH?

Replacement ratio

2

FROM WHERE?

Pension + Social Security + savings

3

FOR HOW LONG?

Inflation + COLA

BENEFIT ADEQUACY

How much? • From where? • For how long?

Same 70% at Retirement, Same Adequacy?

TEACHER A

$80,000
final pay

$56,000
annual pension

70% pension replacement

Social Security coverage **YES**

COLA **2% compound**

TEACHER B

$80,000
final pay

$56,000
annual pension

70% pension replacement

Social Security coverage **NO**

COLA **None**

The day-one replacement ratio is identical. The retirement-income story is not.

NMERB COLA Provisions (non-disabled)

- Adjustment factor = ½ CPI change
  - limited between 2 and 4% unless CPI change less than 2%
  - If funded ratio < 90% (projected 2039)
    - 25 years of service and less than median benefit: Adjustment factor x 90%
    - Otherwise Adjustment factor x 80%
  - If funded ratio 90-100%
    - 25 years of service and less than median benefit: Adjustment factor x 95%
    - Otherwise Adjustment factor x 90%
  - Not payable until 65/67 depending on Tier

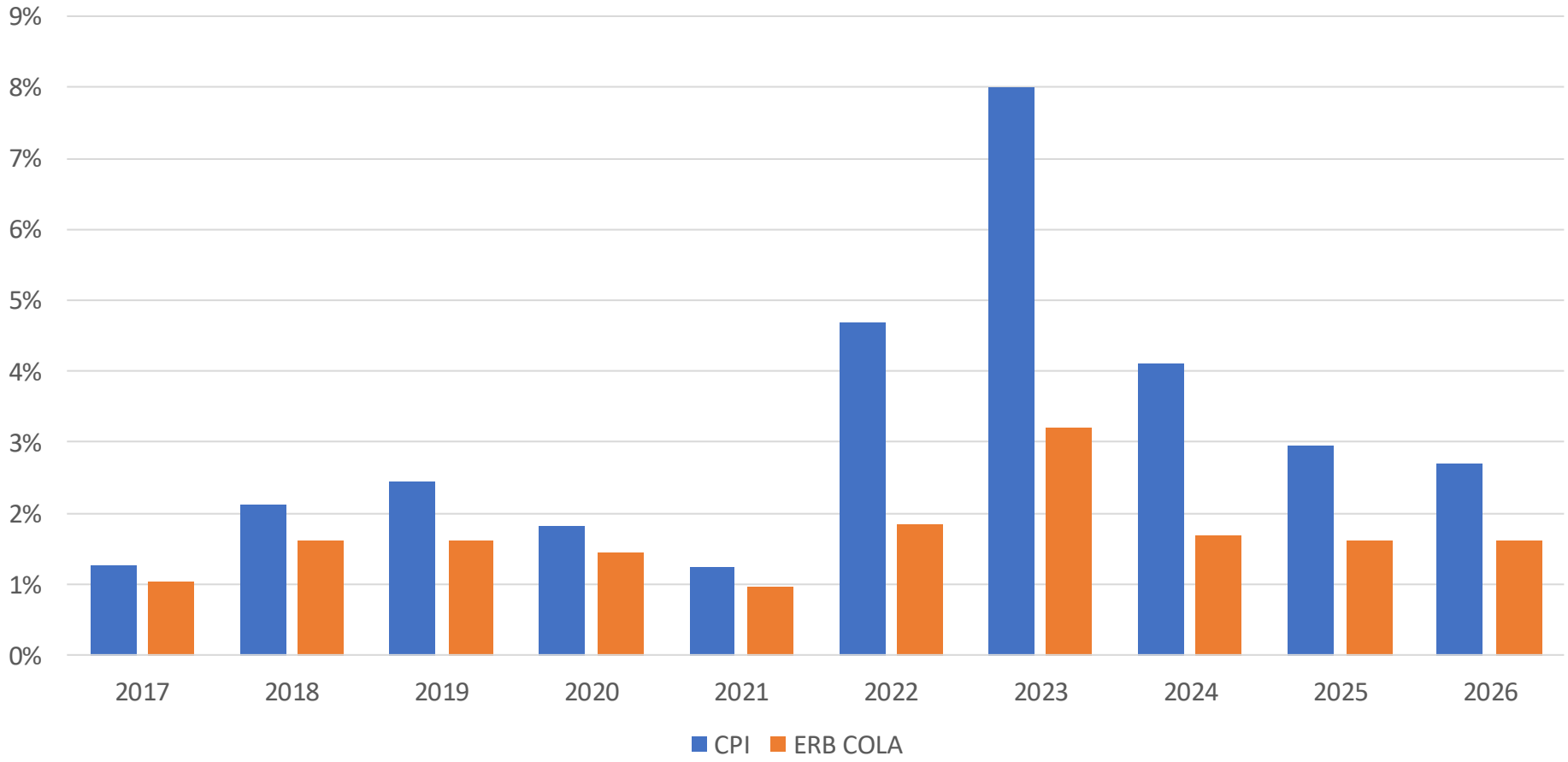
NMERB *does* have Social Security Coverage

- Significant income replacement from Social Security
- Fully indexed, but…
- If born 1960 and later, full benefits at 67

Key Components of ERB Adequacy

Tier	1 Hired prior to June 30, 2010	2 July 1, 2010-June 30, 2013	3 July 1, 2013 - June 30, 2019	4 Hired on or after July 1, 2019
Multiplier	2.35%	2.35%	2.35%	First 10 1.35% Next 10 2.35% Next 10 3.35% Thereafter 2.40%
Final Average Salary	5 years	5 years	5 years	5 years
Early Retirement Reduction	From **60**, No reduction with 25+ yos	From **65**, No reduction with 30+ yos	From **65**, unless 30+ yos then **55**	From **65**, unless 30+ yos then **58**
Cost of Living Adjustment	payable at 65	payable at 65	payable at 67	payable at 67
Social Security?	Y	Y	Y	Y
Actual Inflation	High actual inflation reduces income replacement faster			

Actual COLAs vs. Inflation for Last Decade



Tier 1 - 30 Years of Service
Retired 10 Years Ago at Age 65

- COLA Eligible in Year After Retire

Year	Income Replacement As a % of Salary at Retirement	Income Replacement As a % of Initial Retirement Benefit
2016	66.5%	100.0%
2017	66.4%	99.8%
2018	66.0%	99.3%
2019	65.5%	98.4%
2020	65.2%	98.1%
2021	65.1%	97.8%
2022	63.3%	95.2%
2023	60.5%	90.9%
2024	59.1%	88.8%
2025	58.3%	87.6%
2026	57.7%	86.7%

- Social security can bridge most, if not all, of the gap starting in 2018

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Tier 1 - 30 Years of Service
Retired 10 Years Ago at Age 55

- Not COLA Eligible Until Age 65

Year	Income Replacement As a % of Salary at Retirement	Income Replacement As a % of Initial Retirement Benefit
2016	66.5%	100.0%
2017	65.7%	98.8%
2018	64.3%	96.7%
2019	62.8%	94.4%
2020	61.7%	92.7%
2021	60.9%	91.6%
2022	58.2%	87.5%
2023	53.9%	81.0%
2024	51.7%	77.8%
2025	50.3%	75.6%
2026	48.9%	73.6%

- Social security can bride some of the gap starting in 2028, but unlikely to bridge all of it, but income replacement is very depressed until then