

Investments and Pensions Oversight Committee

Friday, September 7th, 2012

Status Report on Development of Proposals to Ensure the Actuarial Soundness of the Educational Retirement Board Pension Fund

Jan Goodwin, Executive Director



- Meetings of stakeholders have occurred since March of 2012

<i>AAUP</i>	<i>NEA-NM</i>	<i>NMSBA</i>
<i>AFSCME</i>	<i>NMAER</i>	<i>NMSU</i>
<i>AFT</i>	<i>NMASBO</i>	<i>SFCC</i>
<i>AFT Retirees</i>	<i>NMCSA</i>	<i>UNM</i>
<i>CWA-NM</i>	<i>NMICC</i>	<i>UNM Retirees</i>

- Unanimous consent on proposal reached on July 17, 2012.
Changes include:
 1. Employee contribution rate increases to 10.7%, phased in thru FY2015,
 2. Minimum Retirement Age (MRA) of 55 for new hires only, and
 3. Cost of Living Adjustment (COLA) at age 67 for new hires only.

Proposal comparison

Plan Design Changes

#	COLA	FAS	Vesting	Minimum Retirement		Contribution Rate		Grandfather Period	Funded Ratio		Comments
				Age	Multiplier	Employer	Employee		2030	2040	
Baseline	2%	5	5	none	2.35%	13.90%	7.90%	n/a	63.60%	68.90%	COLA starts at age 65.
2012 Proposal	1.75	5	5	55	2.35%	13.90%	9.90%	10 years	78.00%	96.30%	
Start a Period for employees only	2% - at age 67 for new hires	5	5	55 - New Hires only	2.35%	13.90%	10.7% by FY 2015	n/a	75.20%	100.20%	Current retirees not affected by change in COLA. The COLA rate for members who retire after the effective date of the legislation would be unchanged, but it would not be effective until age 67. Also, the Minimum Retirement Age will be 55 for new hires only.

Explanations

Changes to current benefit or benefit calculation are shown in red.

Grandfather period. All members who meet any of the retirement eligibility requirements either before or during the grandfather period would not be subject to the changes in retirement benefit calculation or minimum retirement age when they retire. Members who met one of the retirement eligibility during the grandfather period *do not* have to retire during the grandfather period to be exempt from the changes. Those members would be able to retire at any time and have their retirement benefit calculated under current provisions, without being subject to the new minimum retirement age.

COLA. ERB retirees are generally eligible for a Cost of Living Adjustment (COLA) at age 65. The COLA is determined by the annual change in the Consumer Price Index (CPI). Currently, the COLA is calculated as follows: If the CPI change is less than 2%, the COLA is equal to the change in CPI. If the CPI change is greater than 2%, the COLA is one-half that amount with a minimum of 2% and a maximum of 4%.

FAS. Retirement benefits are based on three components- Final Average Salary (FAS), the member's years of service credit and the 2.35% multiplier. The FAS is the member's highest average annual earnings for any 20 consecutive quarters (5 years). In general, the longer the FAS period, the lower the retirement benefit.

Minimum retirement age. This would be the youngest age at which a member could receive retirement benefits. Although members would be able to stop working at an ERB employer once they satisfy one of the retirement eligibility requirements, they would have to wait until the minimum retirement age to receive a retirement benefit. Currently, ERB members do not have to reach a minimum retirement age to receive retirement benefits.



ERB Member Stakeholder Advisory Group Proposal

ERB Member Stakeholder Advisory Group Proposal

Study 104 - Minimum Retirement Age (MRA) of 55 & 2% Cost of Living Adjustment (COLA) at age 67 for new hires only; Employee contribution rate of 10.7% effective FY2015

Fiscal Year Ending June 30	UAAL (in millions)	Funded Ratio	Total ARC (Employer and Member)	Funding Period (Years)
2010	\$ 5,432	63.5%	25.10%	infinite
2020	\$ 7,504	66.2%	24.45%	29.3
2030	\$ 7,574	75.2%	20.66%	15.4
2043	\$ (115)	100.2%	13.20%	-0.1

Projections Based on June 30, 2010 Actuarial Valuation

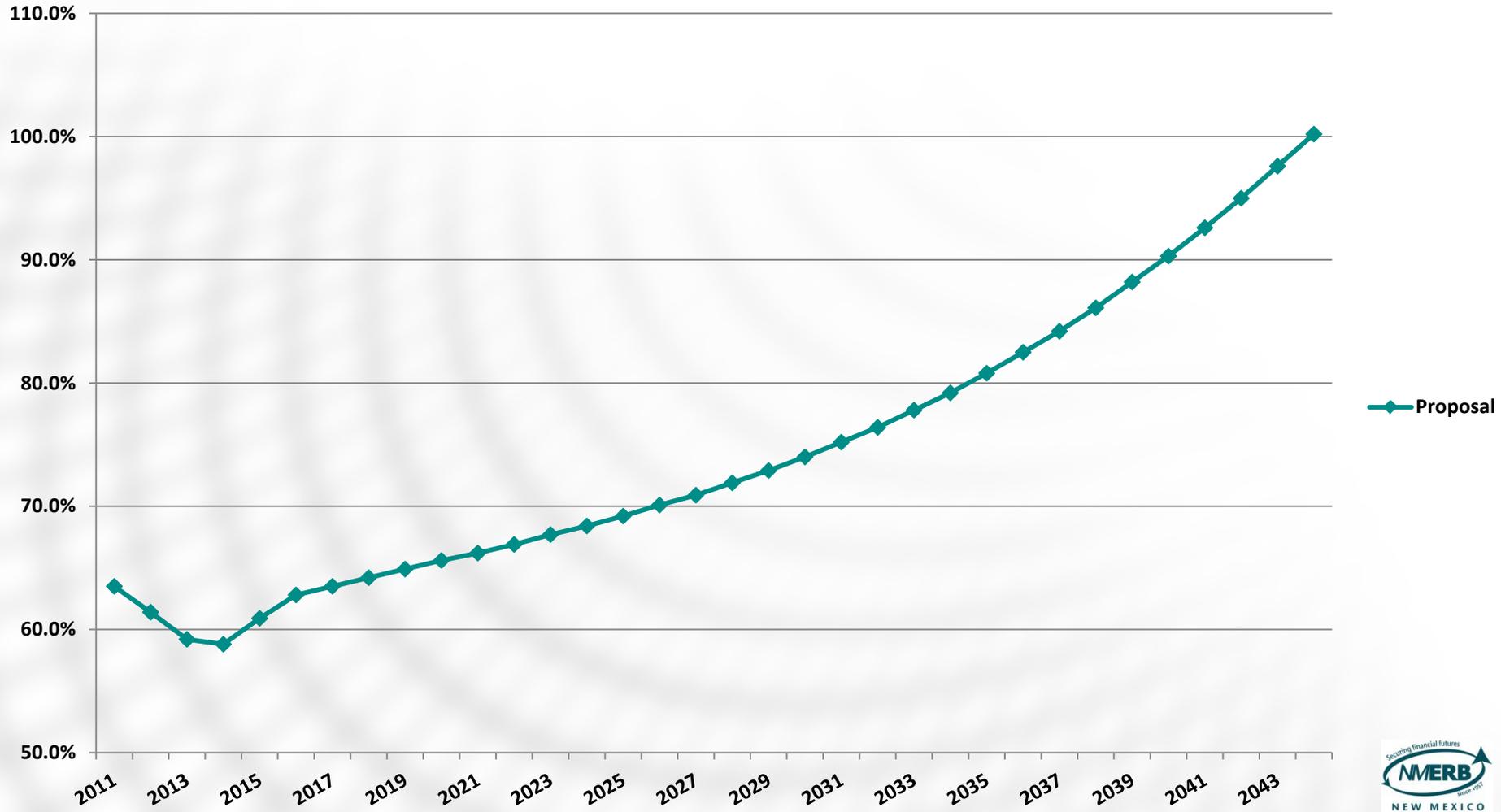
Projections based on 7.75% Discount Rate and New Actuarial Assumptions

The current plan provisions assume a member contribution rate of 7.9% in FY2012 and later. The employer contribution rate is equal to the statutory rate.



Funded Ratio – Proposal

Proposal



Based on a 35-year work history

- Earnings over career are inflation adjusted to today
- Benefit is typically 30-40% of final earnings
- Maximum benefit is \$2,500-3,000 per month
- Allowable earnings capped at annual FICA earnings limit
 - 2012 limit is \$110,100
- If fewer than 35 years, \$0 earnings for those years

- Benefit can begin as early as age 62
- Receive maximum benefit if defer receipt until 65 for older members, up to age 67 for younger members
- Beginning benefit at age 62 significantly reduces benefit- between 5-6.67% per year
- Annual compounded, CPI-based cost of living adjustment

Combination of Benefits

- Most public employees participate in Social Security and a public pension plan
- All ERB members participate in Social Security during their ERB employment

Total Retirement Benefit for ERB Member, including Social Security

ERB Multiplier	2.35%
Social Security Benefit (Based on 35-year career)	35%

Examples:		Benefit as a % of Final Average Salary (FAS)		
25 & Out	Years of Service	ERB	SS*	Total Benefit
	25	58.75%	25.00%	83.75%
	30	70.50%	30.00%	100.50%
	35	82.25%	35.00%	117.25%

Rule of 75	Years of Service	ERB**	SS*	Total Benefit
	10	23.50%	10.00%	33.50%
	15	35.25%	15.00%	50.25%
	20	47.00%	20.00%	67.00%

* Assumes no non-ERB earnings

** Assumes member is age 60 at retirement

NB: Earliest age for receipt of Social Security retirement benefit is age 62.



ERB Retirement Eligibility: Age & Benefits

ERB Membership Prior to July 1, 2010

- “25 and Out” – Earned service credits + allowed service credits = 25 or more years. There is no minimum age required.
- “Rule of 75” – Your age + earned service credits = 75 or more. Under the Rule of 75, allowed service credits are used to calculate retirement benefit but do not count toward eligibility. There are permanent and significant reductions if you are under age 60, and even more if you are under age 55.
- “65 and 5” – If you are at least 65 years old and have at least five years of earned service credit, you are eligible for retirement.

ERB Membership Beginning on or after July 1, 2010

- “30 and Out” – Earned service credits + allowed service credits = 30 or more years. There is no minimum age required.
- “Rule of 80” – Your age + earned service credits = 80 or more. As with the Rule of 75, allowed service credits are used to calculate retirement benefit but do not count toward eligibility. There are permanent and significant reductions if you are under age 65, and even more if you are under age 60.
- “67 and 5” – If you are at least 67 years old and have at least five years of earned service credit, you are eligible for retirement.

ERB Benefit Structure

- Final average salary (FAS) x service credit x .0235 = annual benefit
- Five year vesting period
- No minimum retirement age (with exception of reductions in Rule of 75 and Rule of 80)
- Cost of Living Adjustment (COLA) available on July 1 of the year in which you reach age 65 or on July 1 of the year following your effective retirement date, whichever is later. The amount depends on the annual change in the Consumer Price Index (CPI). The average COLA over time has been 2%.

Examples of retirement percentage rates:

- 25 years x .0235 = 58.75%
- 30 years x .0235 = 70.5%
- 35 years x .0235 = 82.25%

- Alice Munnell, Director of the Center for Retirement Research at Boston College
 - “accounting changes do not alter the underlying fundamentals; \$1,000 owed to a retired teacher in ten years under current standards will remain \$1,000 owed in 10 years under the new standards. So policy makers should not let new numbers throw them off the path to sensible reform.”

Effect of Discount Rates on Member Stakeholder Proposal

