

Legislative Education Study Committee

Representative Dennis Roch, Chair

Senator John Sapien, Vice Chair

Friday, October 14, 2016

Educational Retirement Trends and Fund Sustainability

Jan Goodwin, Executive Director

Rick Scroggins, Deputy Director

Mary Lou Cameron, Board Chair

H. Russell Goff, Board Vice Chair

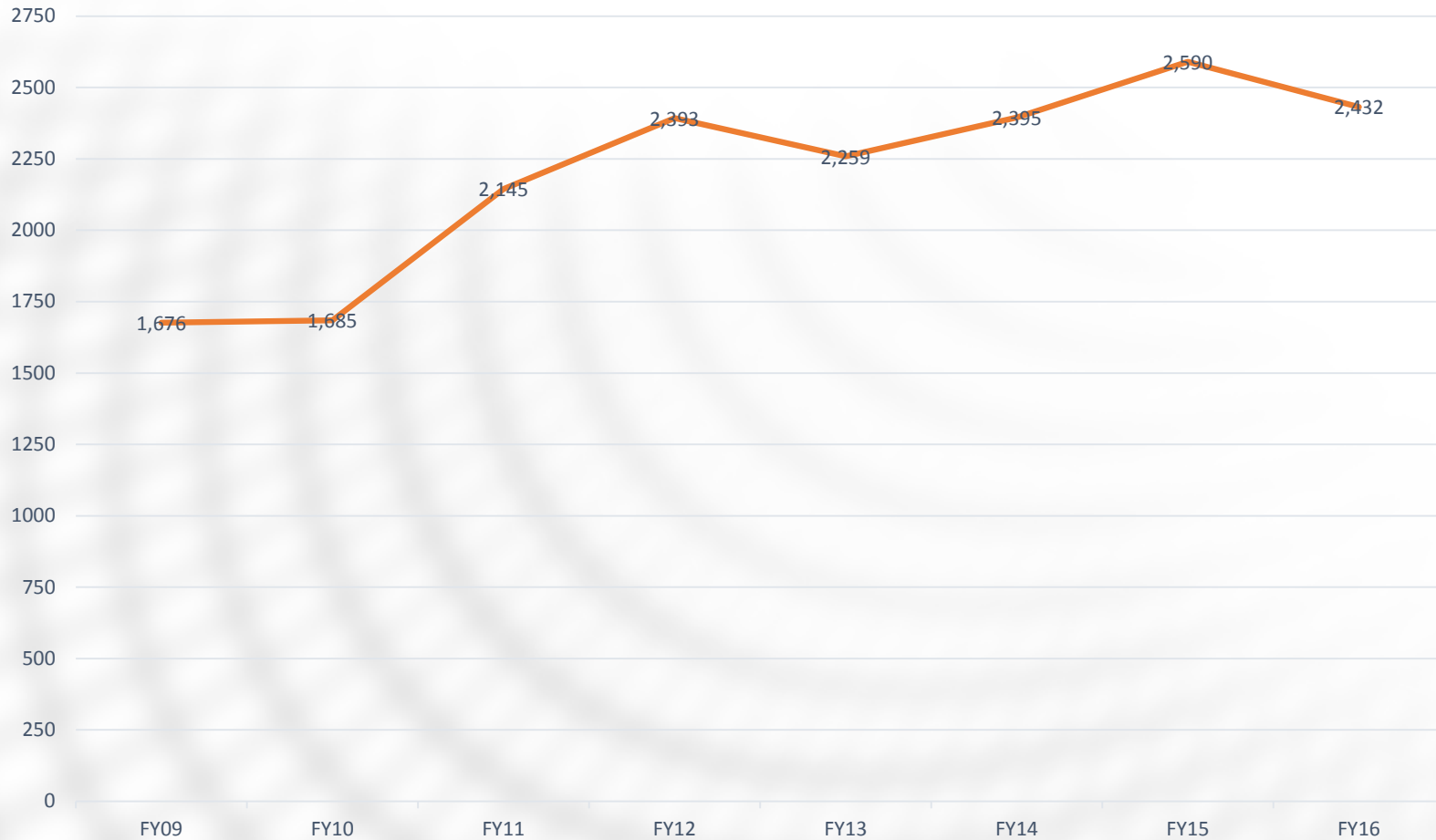
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OCTOBER 14 2016
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Average monthly retirement benefit in FY 2016 2,432 retirees was \$1,926 (\$23,112 annual)

The ERB pension replaces 58.75% of pre-retirement income for members with 25 years' service credit

Total benefits paid in FY 2016 were \$981.8 million

Retirements by Fiscal Year



NMERB's retirement eligibilities

Tier 1

- Began employment before July 1, 2010
- 25 & out; Rule of 75; 65 & 5

Tier 2

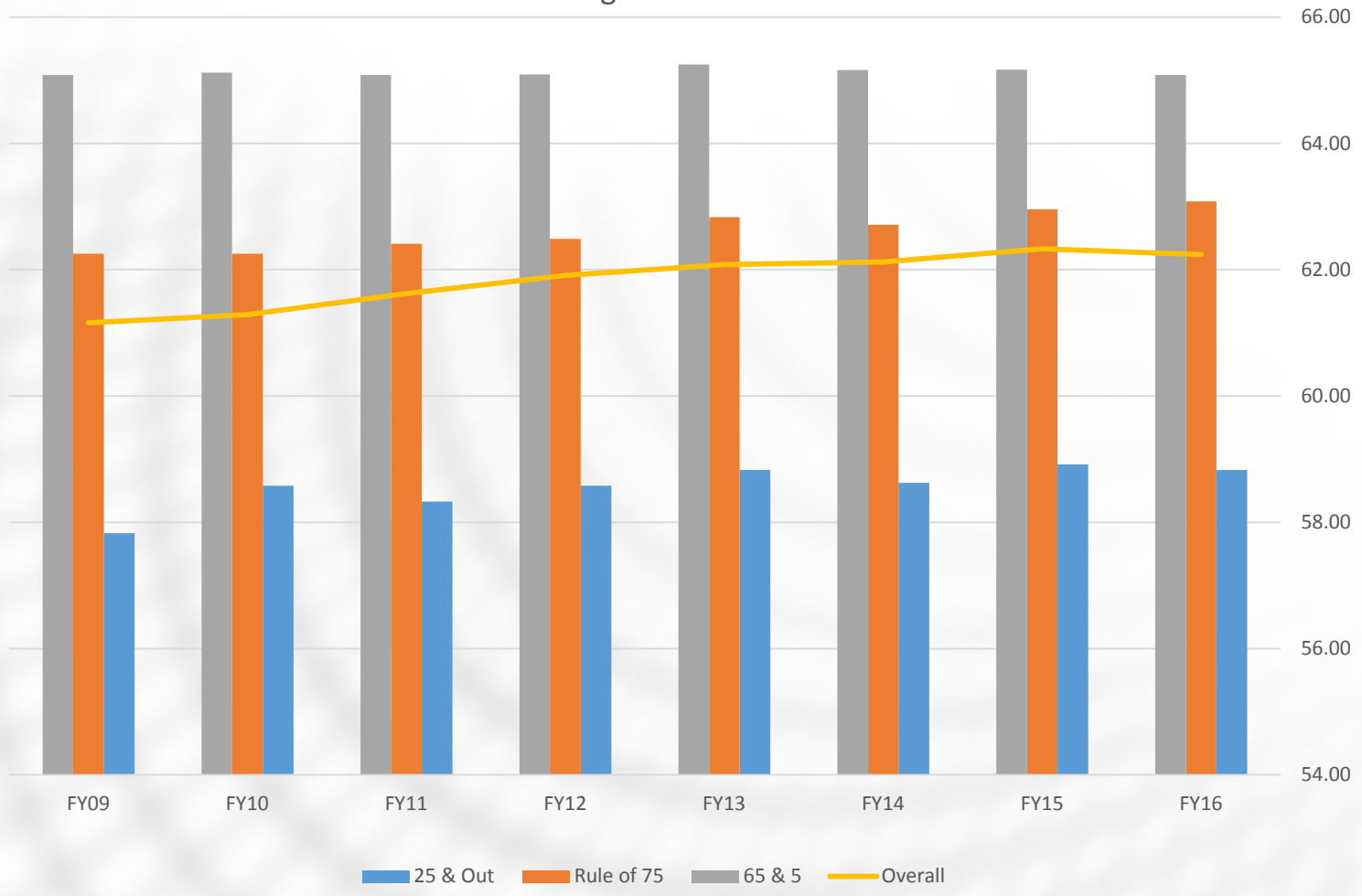
- Began employment on or after July 1, 2010 and before July 1, 2013
- 30 & out; Rule of 80; 67 & 5

Tier 3

- Began employment on or after July 1, 2013
- 30 & out; Rule of 80; 67 & 5

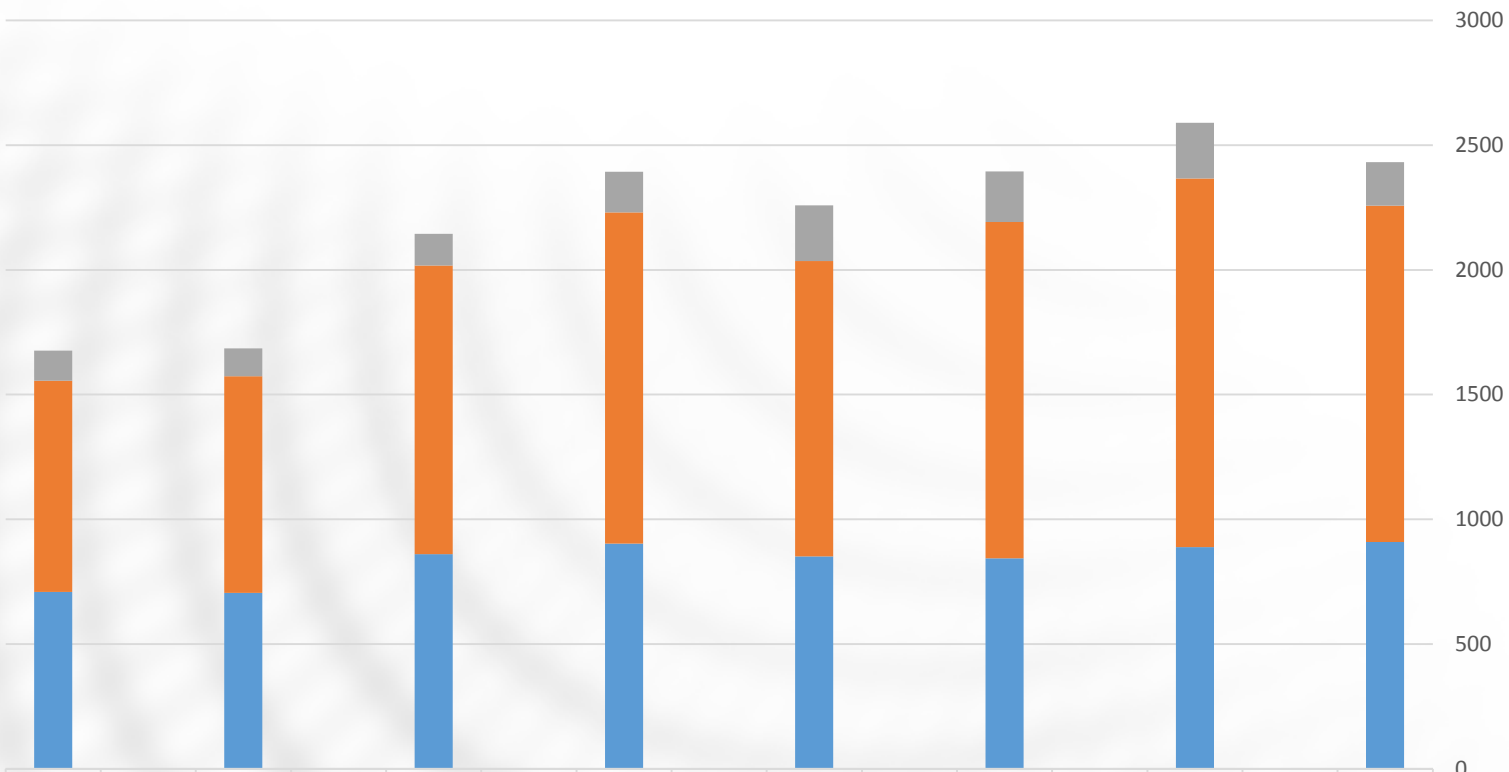
Retirement Trends, continued

Median Age at Retirement



Retirement Trends, continued

Retirees by Year

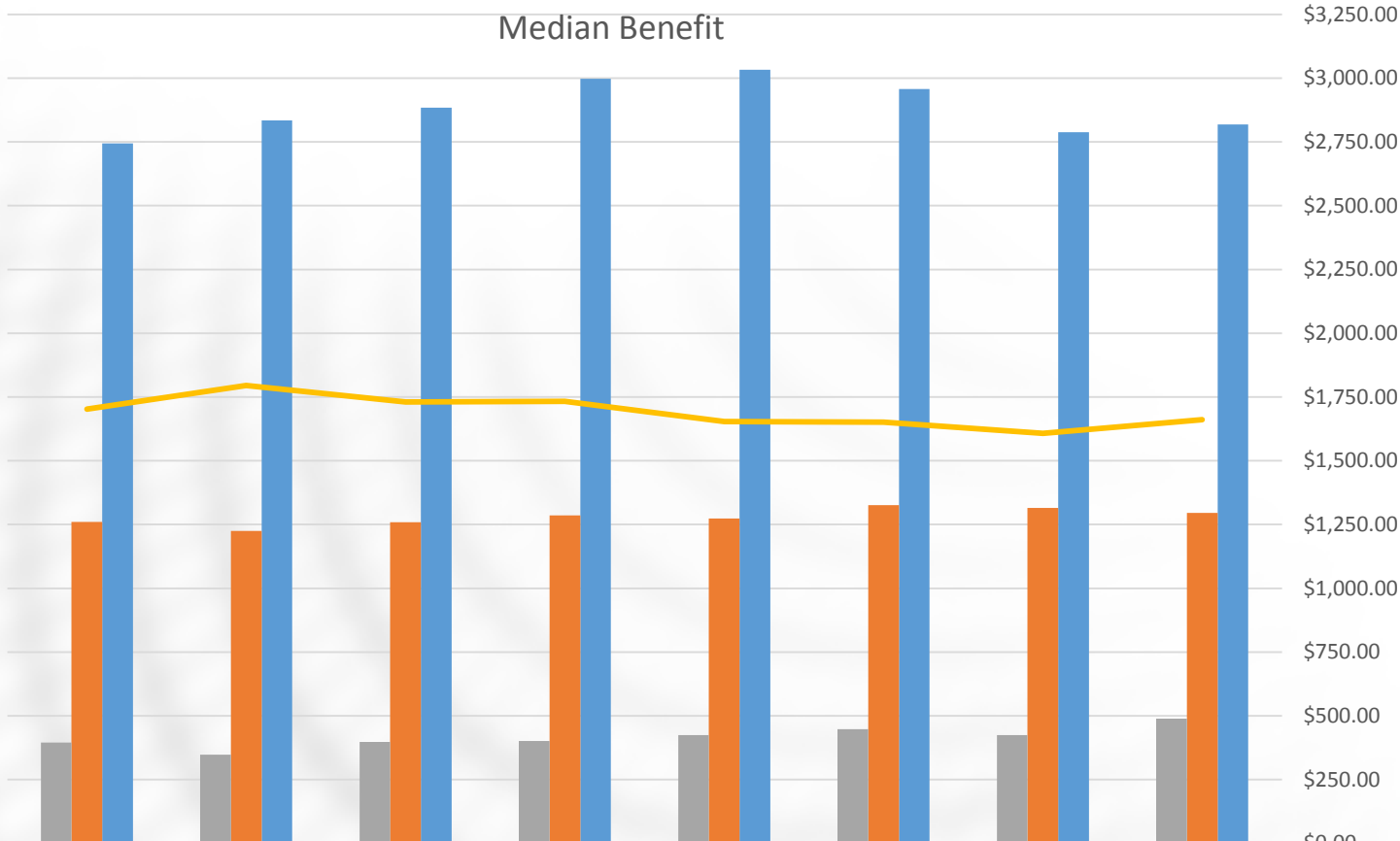


	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
■ 65 & 5	120	111	127	163	223	203	223	175
■ Rule of 75	847	869	1158	1327	1185	1348	1478	1348
■ 25 & Out	709	705	860	903	851	844	889	909

■ 25 & Out ■ Rule of 75 ■ 65 & 5



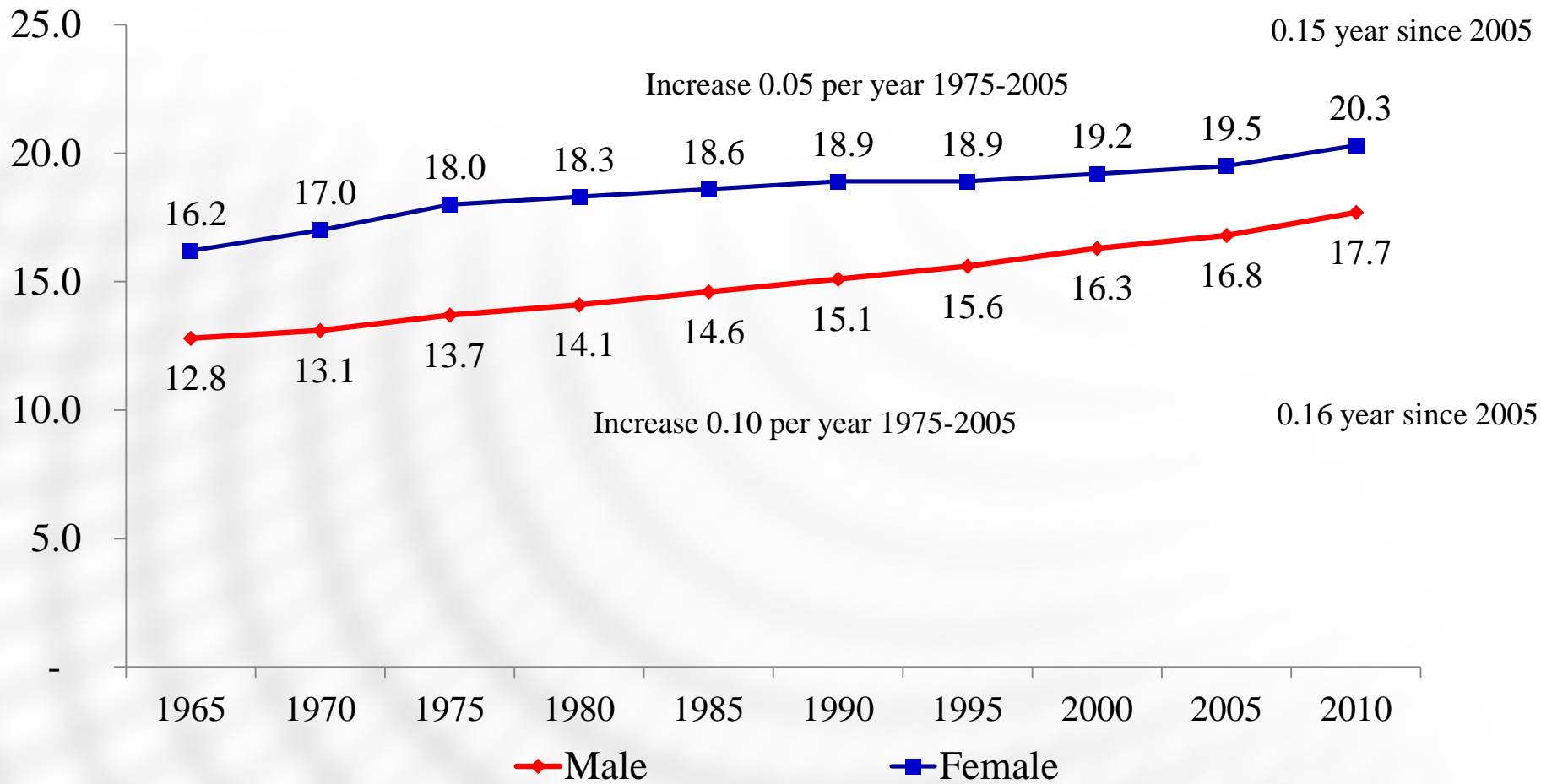
Retirement Trends, continued



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
25 & Out	\$2,744.02	\$2,834.04	\$2,884.29	\$2,997.67	\$3,033.00	\$2,957.50	\$2,788.00	\$2,819.00
Rule of 75	\$1,259.87	\$1,224.70	\$1,259.35	\$1,285.88	\$1,274.00	\$1,325.50	\$1,314.50	\$1,296.00
65 & 5	\$395.75	\$348.07	\$398.24	\$401.73	\$425.00	\$448.00	\$425.00	\$489.00
Overall	\$1,702.00	\$1,794.50	\$1,730.00	\$1,733.00	\$1,654.00	\$1,651.00	\$1,607.50	\$1,661.00



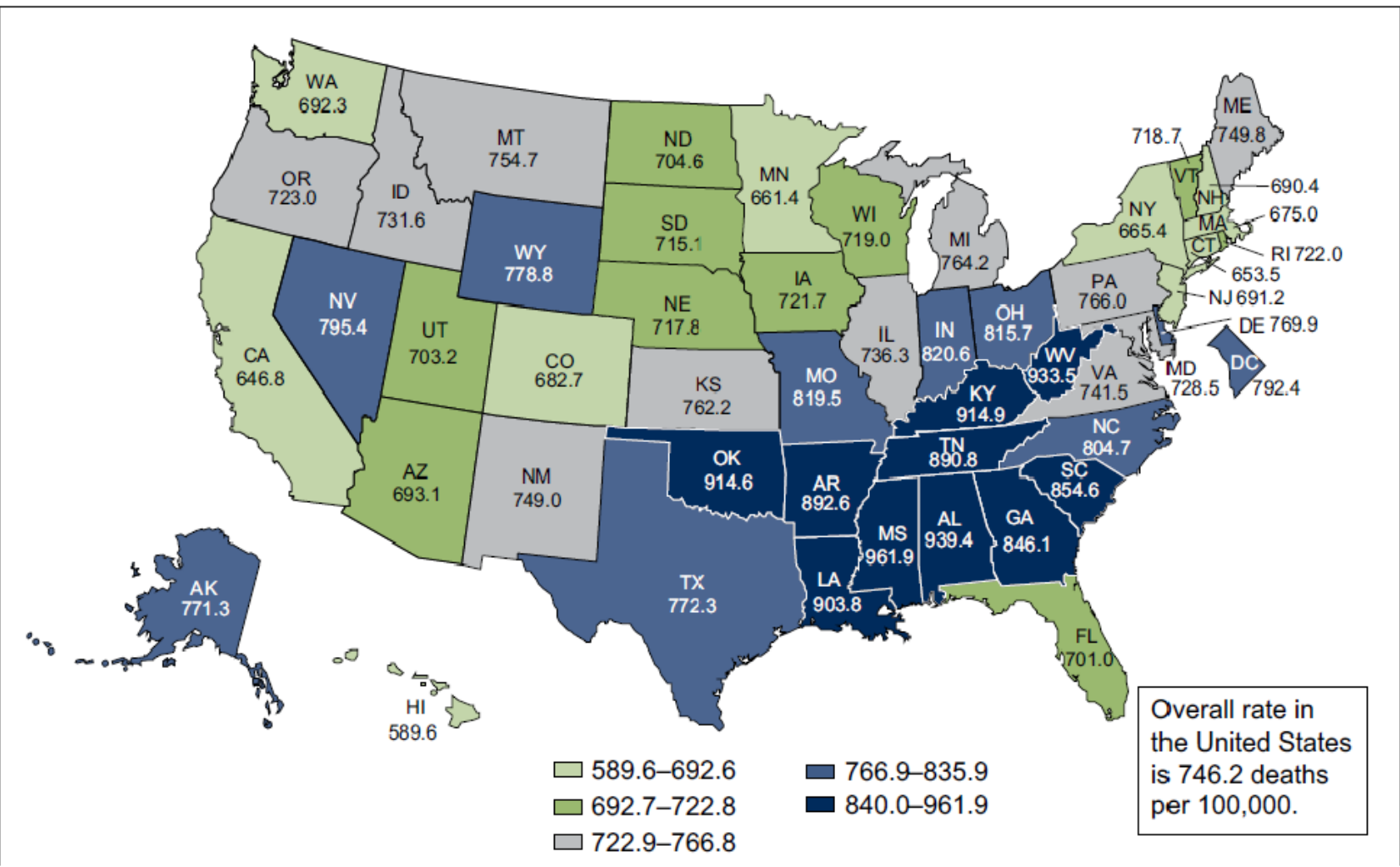
Life Expectancy for the General US Population - from Age 65



Since 2010, life expectancies continue to increase. The latest published rates (2012) are 20.5 years for females and 17.9 years for males, both from age 65.



Mortality Rates by State



Source: National Vital Statistics



Average Age At Death

Healthy Retirees

	<u>Male</u>	<u>Female</u>
2006	81.1	81.9
2007	80.8	83.9
2008	80.0	82.9
2009	81.0	81.8
2010	80.8	83.7
2011	80.1	83.1
2012	80.1	82.8
2013	80.6	82.6
2014	80.7	82.3
2015	80.9	82.2

” there is not a noticeable trend in the average age at death over the past 10 years for the healthy retirees. On average, healthy male retirees died at age 80.7 over the past 10 years and healthy female retirees died at age 82.3. There is a smaller percentage of the retirees that are dying each year, but the average age at death over the past 10 years has hovered around the same age. Over a longer period of time, we would obviously expect to see the average age increase. . . “

R. Ryan Falls, F.S.A., E.A., M.A.A.A.
Senior Consultant & Actuary
Gabriel Roeder Smith & Company

Expected Retirements

Base 06/30/2016		TIER 1				Total Qualified to Retire- Tier 1
		NOT QUALIFIED	25 & Out	Rule of 75	65 + 5	
Base	As of 6/30/16	27,465	2,905	5,532	144	8,581
	K-12	20,520	1,926	3,766	73	5,765
	University	6,560	926	1,662	68	2,656
	Other	385	53	104	3	160
1 year out	As of 6/30/17	25,465	3,667	6,779	135	10,581
	K-12	19,043	2,514	4,653	75	7,242
	University	6,071	1,086	2,000	59	3,145
	Other	351	67	126	1	194
3 years out	As of 6/30/19	21,482	5,554	8,947	63	14,564
	K-12	16,119	3,943	6,188	35	10,166
	University	5,072	1,510	2,607	27	4,144
	Other	291	101	152	1	254
5 years out	As of 6/30/21	17,554	7,677	10,779	36	18,492
	K-12	13,207	5,576	7,481	21	13,078
	University	4,117	1,962	3,123	14	5,099
	Other	230	139	175	1	315
10 years out	As of 6/30/26	8,739	15,514	11,793	0	27,307
	K-12	6,514	11,573	8,198		19,771
	University	2,118	3,670	3,428		7,098
	Other	107	271	167		438
		100,705	35,317	43,830	378	

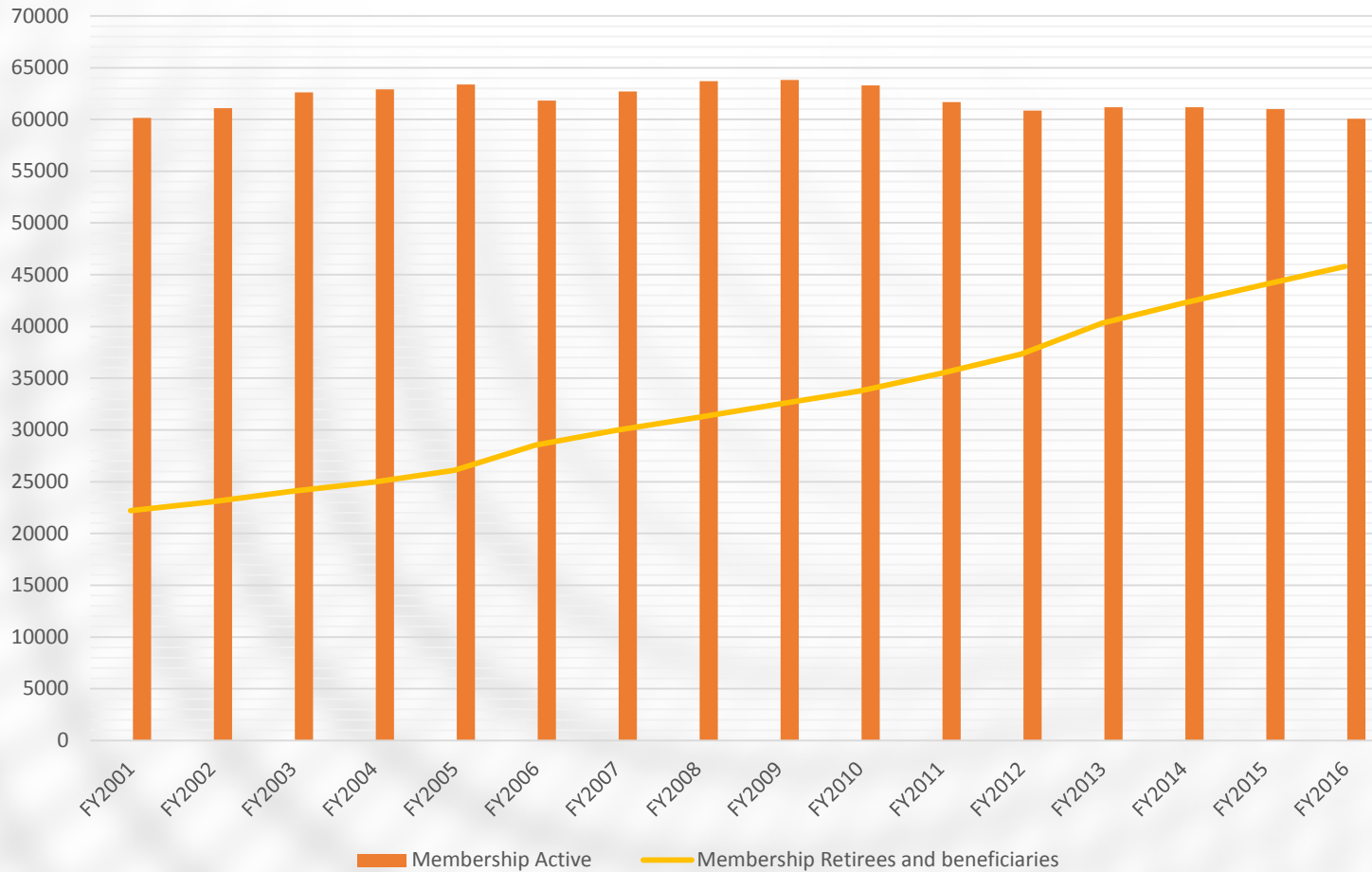
	TIER 2 & 3				Total Qualified to Retire- Tier 2 & 3	Total Qualified to Retire - All Tiers	Total - All Active
	NOT QUALIFIED	30 & Out	Rule of 80	67 + 5			
Base	23,965		28	49	77	8,658	60,088
	16,431		17	27	44	5,809	
	7,219		9	21	30	2,686	
	315		2	1	3	163	
1 year out	23,844		52	146	198	10,779	60,088
	16,355		34	86	120	7,362	
	7,177		15	57	72	3,217	
	312		3	3	6	200	
3 years out	23,388		176	478	654	15,218	60,088
	16,054		108	313	421	10,587	
	7,028		63	158	221	4,365	
	306		5	7	12	266	
5 years out	22,663		507	872	1,379	19,871	60,088
	15,580		324	571	895	13,973	
	6,790		175	284	459	5,558	
	293		8	17	25	340	
10 years out	20,782		2,976	284	3,260	30,567	60,088
	14,343		1,948	184	2,132	21,903	
	6,180		973	96	1,069	8,167	
	259		55	4	59	497	
		114,642	0	3,739	1,829		

	#	% of Active	Tier 1 Total %
Can retire now-end of FY16	8,581	14.28%	14.28%
K-12	5,765	9.59%	9.59%
University	2,656	4.42%	4.42%
Other	160	0.27%	0.27%
Meet qualification by end of FY17	2,000	3.33%	17.61%
K-12	1,477	2.46%	12.05%
University	489	0.81%	5.23%
Other	34	0.06%	0.32%
Meet qualification by end of FY19	3,983	6.63%	24.24%
K-12	2,924	4.87%	16.92%
University	999	1.66%	6.90%
Other	60	0.10%	0.42%
Meet qualification by end of FY21	3,928	6.54%	30.77%
K-12	2,912	4.85%	21.76%
University	955	1.59%	8.49%
Other	61	0.10%	0.52%
Meet qualification by end of FY26	8,815	14.67%	45.45%
K-12	6,693	11.14%	32.90%
University	1,999	3.33%	11.81%
Other	123	0.20%	0.73%

	#	% of Active	Tier 2 & 3 Total %	TOTAL%
	77	0.13%	0.13%	14.41%
K-12	44	0.07%	0.07%	9.67%
University	30	0.05%	0.05%	4.47%
Other	3	0.00%	0.00%	0.27%
	121	0.20%	0.33%	17.94%
K-12	76	0.13%	0.20%	12.25%
University	42	0.07%	0.12%	5.35%
Other	3	0.00%	0.01%	0.33%
	456	0.76%	1.09%	25.33%
K-12	301	0.50%	0.70%	17.62%
University	149	0.25%	0.37%	7.26%
Other	6	0.01%	0.02%	0.44%
	725	1.21%	2.29%	33.07%
K-12	474	0.79%	1.49%	23.25%
University	238	0.40%	0.76%	9.25%
Other	13	0.02%	0.04%	0.57%
	1,881	3.13%	5.43%	50.87%
K-12	1,237	2.06%	3.55%	36.45%
University	610	1.02%	1.78%	13.59%
Other	34	0.06%	0.10%	0.83%



ERB Active and Retirees
FY01-FY16



- Retirement plans generally have contributions coming in and benefits being paid out
- The net (non-investment) cash flow is the difference between (1) contributions and (2) benefits and expenses
- These cash flows will be different for each plan since all plans have different plan provisions, membership characteristics and contribution policies

Net Cash Flow Defined

$$\text{Net Cash Flow} = C - B - E$$

C = Contributions

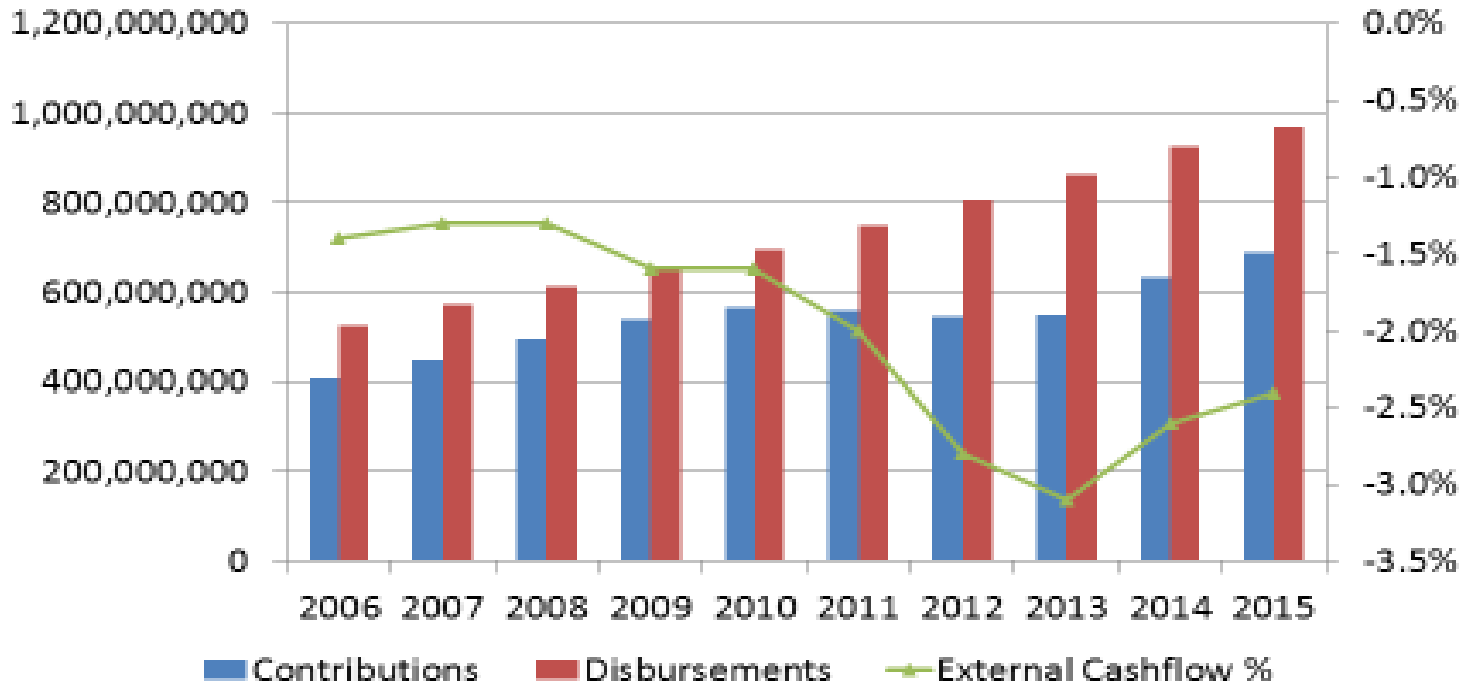
B = Benefits Paid

E = Administrative Expenses

- ◆ If $C - B - E$ is negative = Negative Cash Flow
- ◆ If $C - B - E$ is positive = Positive Cash Flow
- ◆ Younger plans tend to have positive cash flows, whereas older, more mature plans may have negative cash flows.



ERB Negative Cash Flow



When assessing the impact of cash flow on a pension plan, it is important to remember why a pension plan has assets -- **TO PAY BENEFITS**

So just because a plan has negative cash does not necessarily imply it is in trouble

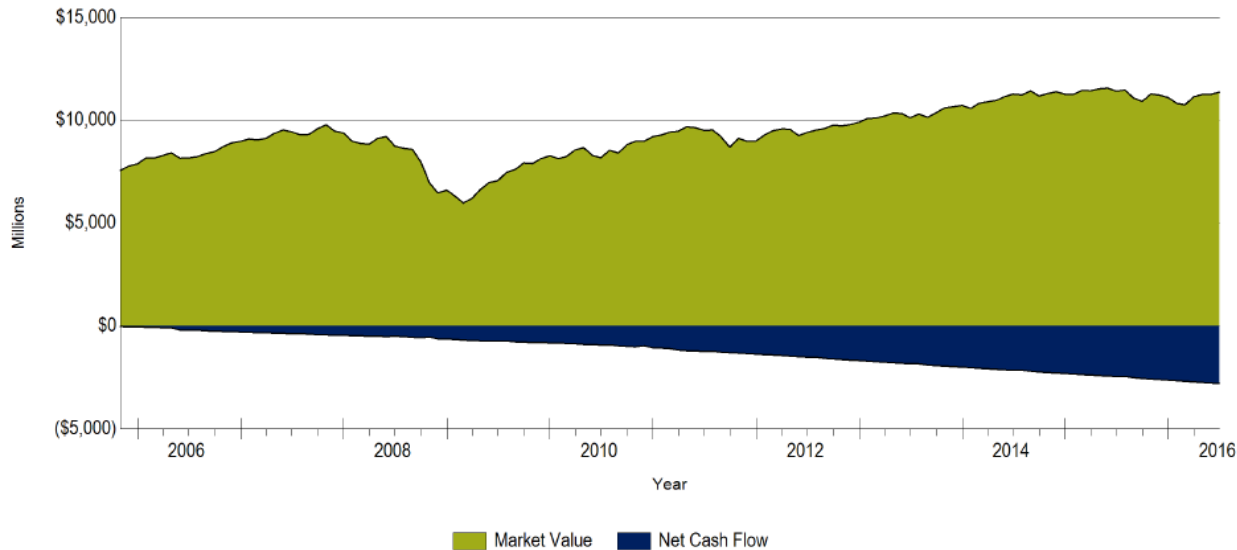
In fact, some would say that the primary purpose of pre-funding is so the investment return can pay a significant portion of the benefit payments

The real issue with negative cash flow has to do with whether the plan has enough liquidity to make all the required benefit payments without changing its investment portfolio to one comprised of a larger percentage of short term (cash generating) investments

New Mexico Educational Retirement Board

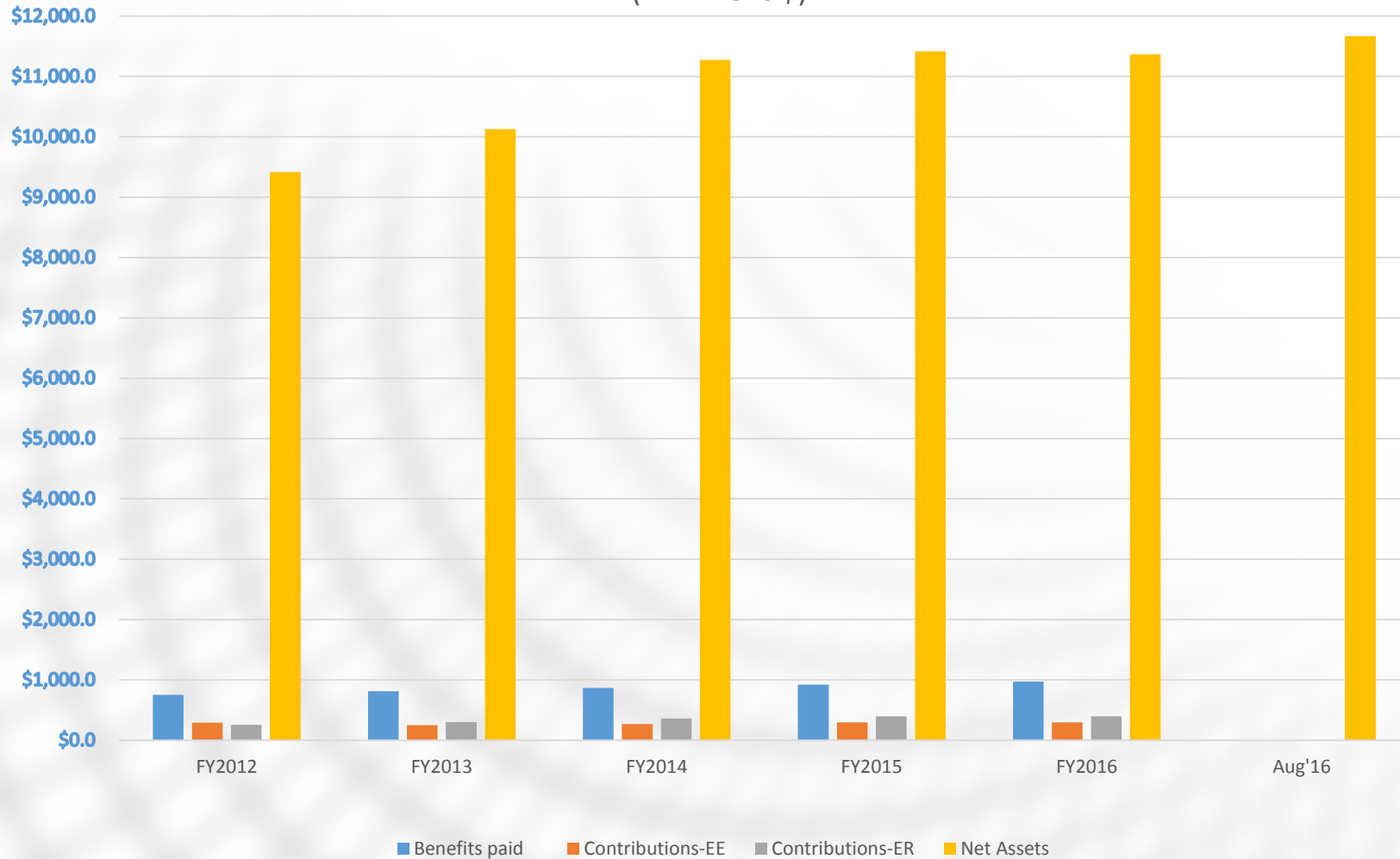
Total Fund Asset Growth Summary

Market Value History
Since NEPC began tracking performance, October 1, 2005 thru June 30, 2016



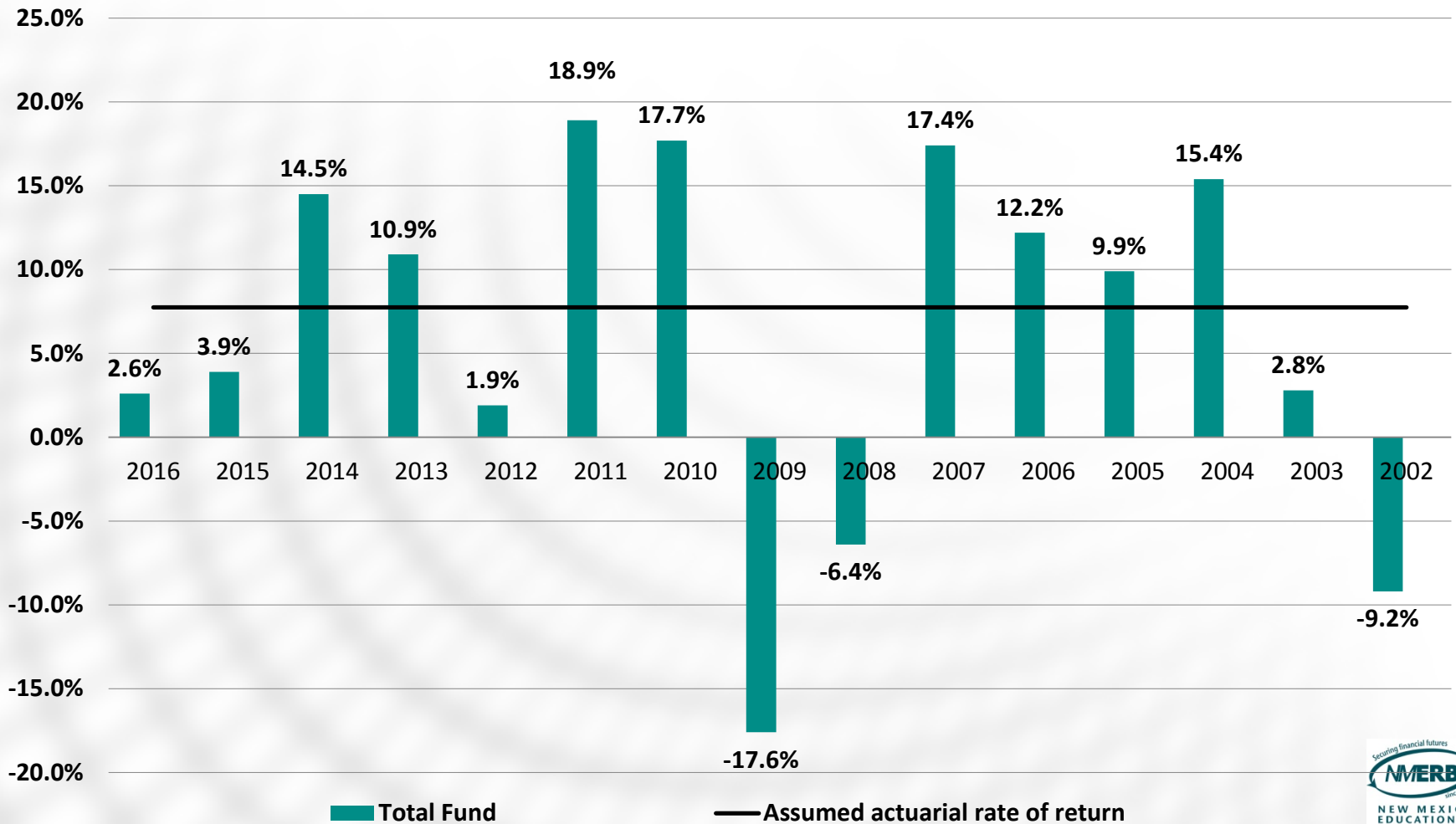
	Last Three Months	Year-To-Date	One Year	Three Years	Five Years	Since 10/1/05
Beginning Market Value	\$11,145,741,106	\$11,110,179,629	\$11,416,629,337	\$10,123,852,370	\$9,513,175,807	\$7,694,652,364
Net Cash Flow	-\$74,216,554	-\$162,801,840	-\$351,495,583	-\$966,321,930	-\$1,567,850,568	-\$2,787,166,762
Net Investment Change	\$295,077,077	\$419,223,841	\$301,467,876	\$2,209,071,190	\$3,421,276,391	\$6,459,116,028
Ending Market Value	\$11,366,601,630	\$11,366,601,630	\$11,366,601,630	\$11,366,601,630	\$11,366,601,630	\$11,366,601,630

Benefit Payments, Contributions and Net Assets
(in millions \$)



Return vs. 7.75% Target

NMERB Fiscal Year Returns Net of Fees



159 teachers retained each year solely due to the defined benefit plan

\$1.6 million saved in teacher turnover costs by the retention affect of the defined benefit pension

Effect of salary increases

Current long-term assumption for salary increases:

- 3.75% for longer service members with at least 10 years' service
- 12.5% for members during first 10 years of employment- includes merit increases

Salary increases benefit the fund- higher level of contributions

Enhanced benefits for longevity

Social Security:

- Based on 35-year work history
- Higher income replacement for low wage earners
- Income replacement ranges from 30-90%
- 2015 earnings cap \$118,000

NMERB:

- No cap on number of years worked
- All levels of wage earners have similar benefit
- 2015 earnings cap \$265,000
- No limit on income replacement

NMERB:

- Same multiplier for all years- 2.35%

Arizona:

- Multiplier increases to encourage longevity
- 2.1% first 20 years
- 2.15% up to 25 years
- 2.2% up to 30 years
- 2.3% years past 30

Contribution Rate History



**NEW MEXICO
EDUCATIONAL
RETIREMENT
BOARD**

SCHEDULE OF CONTRIBUTION RATES

Fiscal Year	wage category	Date Range	Member Rate	Employer Rate	Total	% Employee Pays
58-59		7/1/1957 -6/30/1959	3.00%	4.00%	7.00%	42.86%
60-74		7/1/1959 -6/30/1974	4.00%	6.50%	10.50%	38.10%
75-79		7/1/1974 -6/30/1979	5.50%	6.50%	12.00%	45.83%
80-81		7/1/1979 -6/30/1981	6.50%	6.50%	13.00%	50.00%
82-84		7/1/1981 -6/30/1984	6.80%	6.80%	13.60%	50.00%
85-93		7/1/1984 -6/30/1993	7.60%	7.60%	15.20%	50.00%
94-2005		7/1/1993 -6/30/2005	7.60%	8.65%	16.25%	46.77%
2006		7/1/2005 -6/30/2006	7.675%	9.40%	17.075%	44.95%
2007		7/1/2006 -6/30/2007	7.75%	10.15%	17.90%	43.30%
2008		7/1/2007 -6/30/2008	7.825%	10.90%	18.725%	41.79%
2009		7/1/2008 -6/30/2009	7.90%	11.65%	19.55%	40.41%
2010 & 2011	\$20k or less	7/1/2009 -6/30/2011	7.90%	12.40%	20.30%	38.92%
2010 & 2011	Over \$20K	7/1/2009 -6/30/2011	9.40%	10.90%	20.30%	46.31%
2012	\$20k or less	7/1/2011 - 6/30/2012	7.90%	12.40%	20.30%	38.92%
2012	Over \$20K	7/1/2011 - 6/30/2012	11.15%	9.15%	20.30%	54.93%
2013	\$20k or less	7/1/2012 - 6/30/2013	7.90%	12.40%	20.30%	38.92%
2013	Over \$20K	7/1/2012 - 6/30/2013	9.40%	10.90%	20.30%	46.31%
2014	\$20k or less	7/1/2013 - 6/30/2014	7.90%	13.15%	21.05%	37.53%
2014	Over \$20K	7/1/2013 - 6/30/2014	10.10%	13.15%	23.25%	43.44%
2015	\$20k or less	7/1/2014 - future	7.90%	13.90%	21.80%	36.24%
2015	Over \$20K	7/1/2014 - future	10.70%	13.90%	24.60%	43.50%



Questions



Jan Goodwin, Executive Director

(505) 476-6118

jan.goodwin@state.nm.us

Rick Scroggins, Deputy Director

(505) 476-6127

rick.scroggins@state.nm.us