

# **Legislative Finance Committee**

**Senator John Arthur Smith, Chair**

**Representative Jimmie C. Hall, Vice Chair**

**Friday, October 28, 2016**

## **ERB's June 30, 2016 Actuarial Valuation Report**

**Jan Goodwin, Executive Director**

**Mary Lou Cameron, Board Chair**

**H. Russell Goff, Board Vice Chair**



# NEW MEXICO EDUCATIONAL RETIREMENT BOARD

## Actuarial Valuation Report as of June 30, 2016

Presented to Board of Trustees on October 21, 2016  
R. Ryan Falls, Senior Consultant



**Gabriel Roeder Smith & Company**  
Consultants & Actuaries  
[www.gabrielroeder.com](http://www.gabrielroeder.com)



# Actuarial Valuation

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- ◆ Prepared as of June 30, 2016, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods
- ◆ Purposes:
  - ▶ Measure the actuarial liabilities
  - ▶ Determine adequacy of current statutory contributions
  - ▶ Provide other information for reporting
    - CAFR (Consolidated Annual Financial Report)
  - ▶ Explain changes in actuarial condition of ERB
  - ▶ Track changes over time
  - ▶ Provide early warning on new trends



# Key Results

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- ◆ The actuarial funded ratio improved from 63.7% to 64.2%
- ◆ Unfunded Actuarial Accrued Liability (UAAL) increased from \$6.5 billion to \$6.6 billion
- ◆ The normal cost rate increased from 12.98% of pay to 13.00% of pay
- ◆ The funding period increased from 43.2 years to 45.0 years
- ◆ *These above valuation results are determined as of a single point in time. The calculated funding period does not reflect:*
  - ▶ *Lower normal cost for future members*
  - ▶ *Future COLAs less than 2%*
  - ▶ *Open group projections as future hires replace retirements and terminations*



# Recent Events

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- ◆ The return on the market value of assets was 2.8%
  - ▶ Rudimentary calculation by GRS that is consistent with our methods
  - ▶ May differ from more sophisticated returns reported by investment team
- ◆ The return on the actuarial (smoothed) value of assets was 6.6%
  - ▶ Compare actual returns to assumed 7.75% return
  - ▶ \$401 million in deferred losses not yet recognized
  - ▶ Created an actuarial loss of \$130 million
- ◆ Experience gains totaled \$193 million
  - ▶ Includes \$138 million gain due to actual COLA less than the 2.0% assumed
  - ▶ CPI-U was 0.1% and most retirees received a COLA of 0.08%



# Membership – Actives

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- ◆ The number of active members decreased from 60,998 to 60,057, a decrease of 1.5%
  - ▶ Tier 1 members decreased from 38,967 to 36,048
  - ▶ Tier 2 members decreased from 9,551 to 8,197
  - ▶ Tier 3 members increased from 12,480 to 15,812
- ◆ Total payroll of active members increased from \$2,610 million to \$2,612 million
  - ▶ Annual increase of 0.1%
  - ▶ Over the last ten years, total payroll has increased an average of 1.6% per year



# Membership – Actives

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- Average pay for active members increased from \$42,793 to \$43,493
  - Annual increase of 1.6%
  - Over the last ten years, average pay has increased an average of 1.9% per year
- Average age of active members is 46.4
  - 46.5 last year
  - 45.7 ten years ago
- Average years of service is 9.8
  - 9.7 last year
  - 9.2 ten years ago



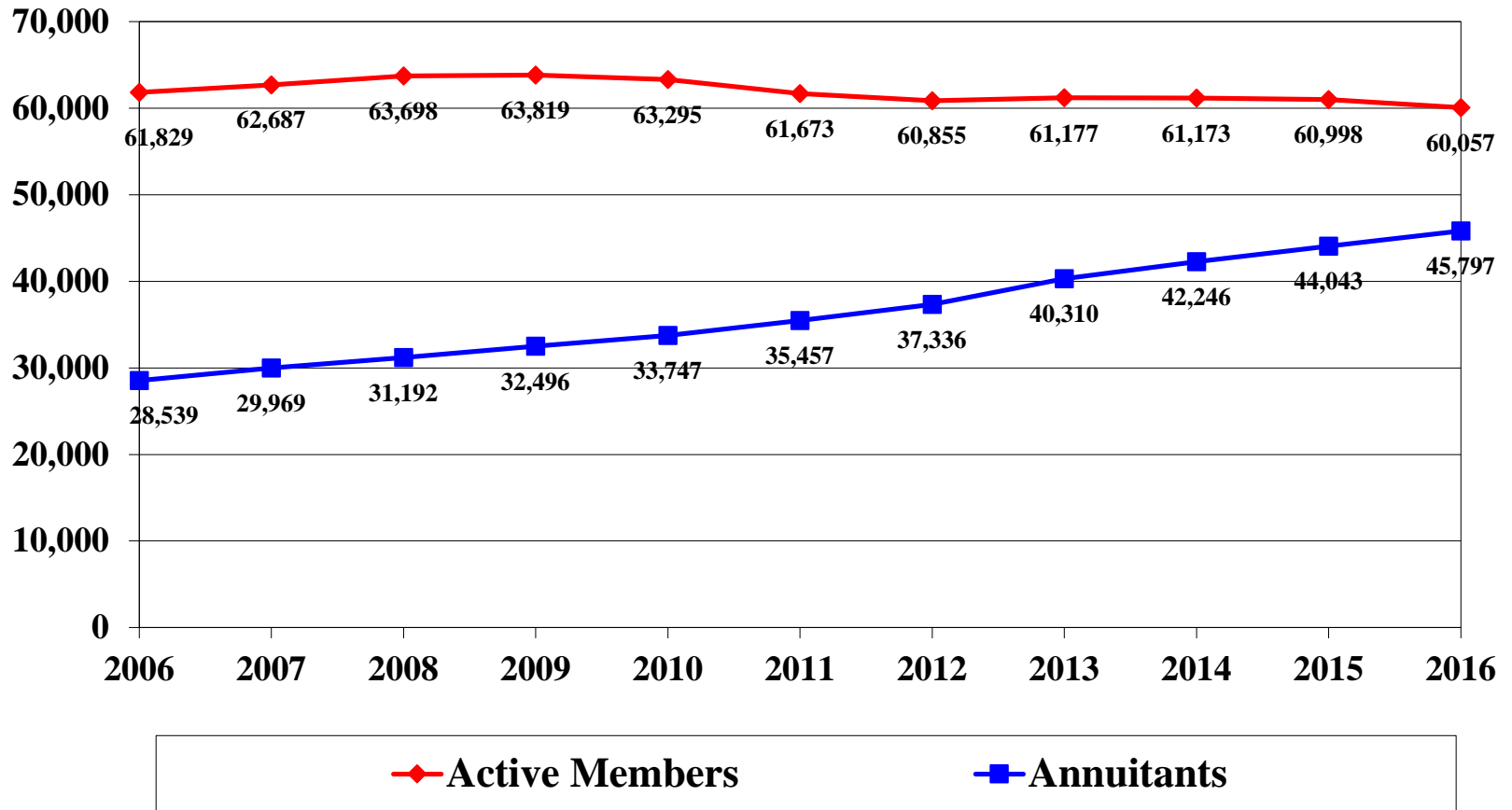
# Membership – Annuitants

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- ◆ The number of annuitants increased from 44,043 to 45,797, a 4.0% increase
  - ▶ Annuitants include service retirees, disabled retirees, and beneficiaries receiving benefits
  - ▶ Over the last ten years, the number of annuitants has grown an average of 4.8% per year
- ◆ Average annual benefit is \$21,976
  - ▶ Reflects cost-of-living increase for July 1, 2016
  - ▶ Over the last ten years, the average annual benefit has grown an average of 2.2% per year
- ◆ There are 1.3 active members for each annuitant
  - ▶ Ten years ago the ratio was 2.2



# Active Members and Annuitants





# Assets

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- ◆ Fair market value increased from \$11,497.7 million to \$11,498.2 million
- ◆ Contributions
  - ▶ Member contributions = \$297 million, including service purchases
    - 10.70% in FY 2016 and thereafter
  - ▶ Employer contributions = \$392 million
    - 13.90% in FY 2016 and thereafter
  - ▶ ARP contribution = \$5 million (3% of ARP payroll)
- ◆ Total contributions of \$694 million, compared to \$690 million last year



# Assets

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- ◆ Most actuarial calculations are based on actuarial value of assets, not market value
- ◆ Actuarial value only reflects a portion of the actual market returns over the past five years
  - ▶ 20% of the difference between last year's expected return on market and the actual return
  - ▶ 40% of FY 2015 difference, 60% of FY 2014 difference and 80% of FY 2013 difference
- ◆ Actuarial value is now \$11,900 million, compared to \$11,472 million last year



# Assets

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- ◆ Actuarial return was 6.6% in FY 2016, compared to 9.7% in FY 2015
  - ▶ 20% of the good returns in FY 2014 and FY 2013, offset by the lower returns in FY 2012, FY 2015 and FY 2016
  - ▶ Compared to assumed return of 7.75%
- ◆ Actuarial value is 103.5% of fair market value, versus 99.8% last year
- ◆ \$401 million in deferred losses, not yet recognized

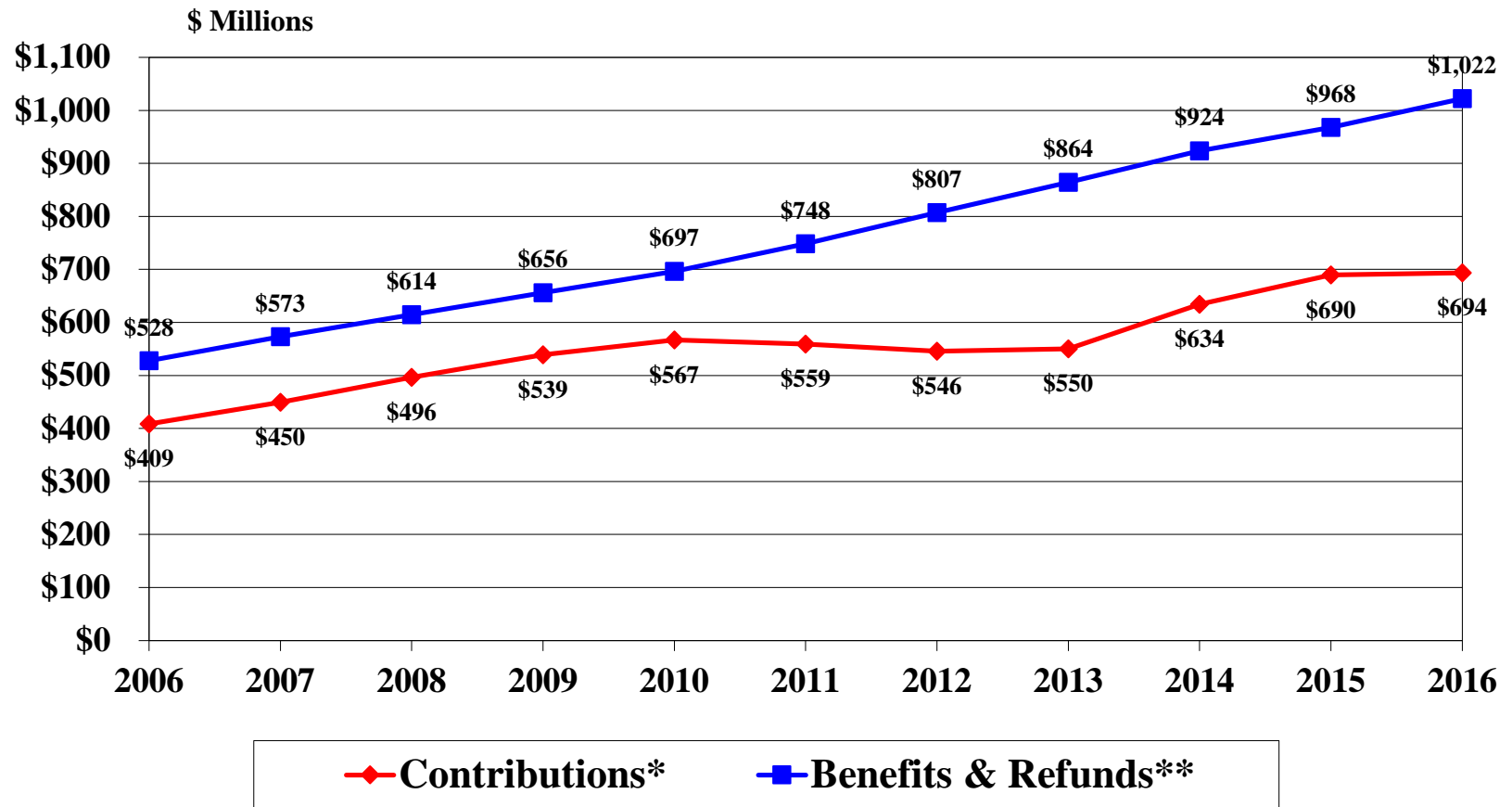


# Assets

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- ◆ Total distributions—benefit payments, refunds and administrative expenses—totaled \$1,022 million
- ◆ Therefore, net external cash flow was -\$329 million, or -2.9% of market value of assets at end of year
  - ▶ Projected to stay at or below -5%
- ◆ Return of approximately 2.8% in FY 2016 (net of administrative and investment expenses)
  - ▶ 6.5% for last five years
  - ▶ 5.7% for last 10 years
  - ▶ 5.7% for last 15 years
  - ▶ 6.8% for last 20 years

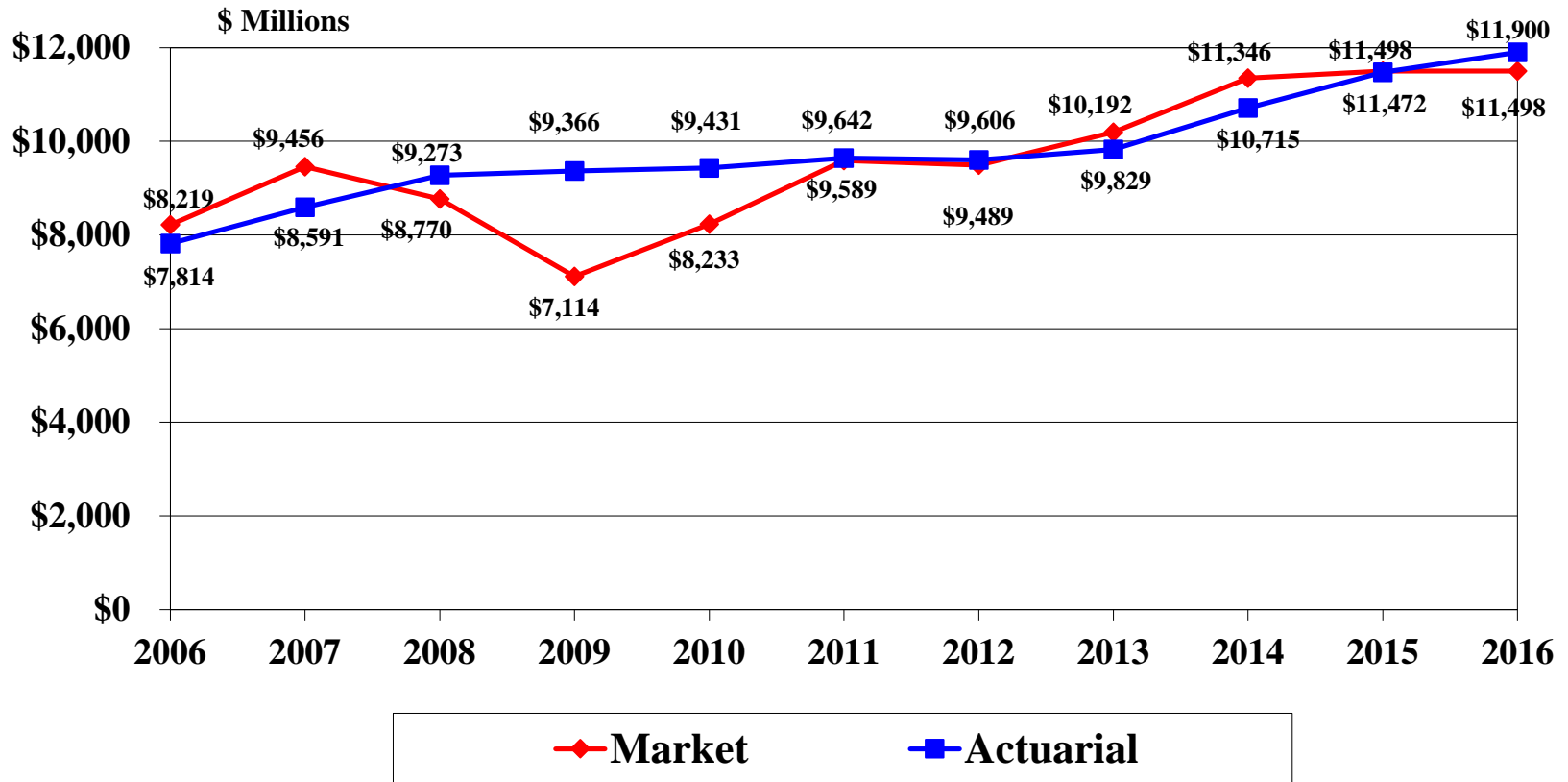
# Contributions vs. Benefits and Refunds



\* Includes member contributions, employer contributions, and service purchases

\*\* Includes administrative expenses

# Market and Actuarial Values of Assets





# Funding Valuation Results

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- ◆ Unfunded actuarial accrued liability (UAAL) increased from \$6,542 million to \$6,637 million
- ◆ Funded ratio (actuarial assets divided by actuarial accrued liability) increased from 63.7% to 64.2%
  - ▶ Ratio using market value decreased from 63.8% to 62.0%
- ◆ 13.90% employer contribution for FY 2016 comprised of:
  - ▶ Employer normal cost: 2.30%
  - ▶ Amortization payment: 11.60%

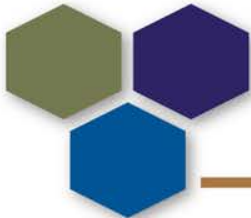




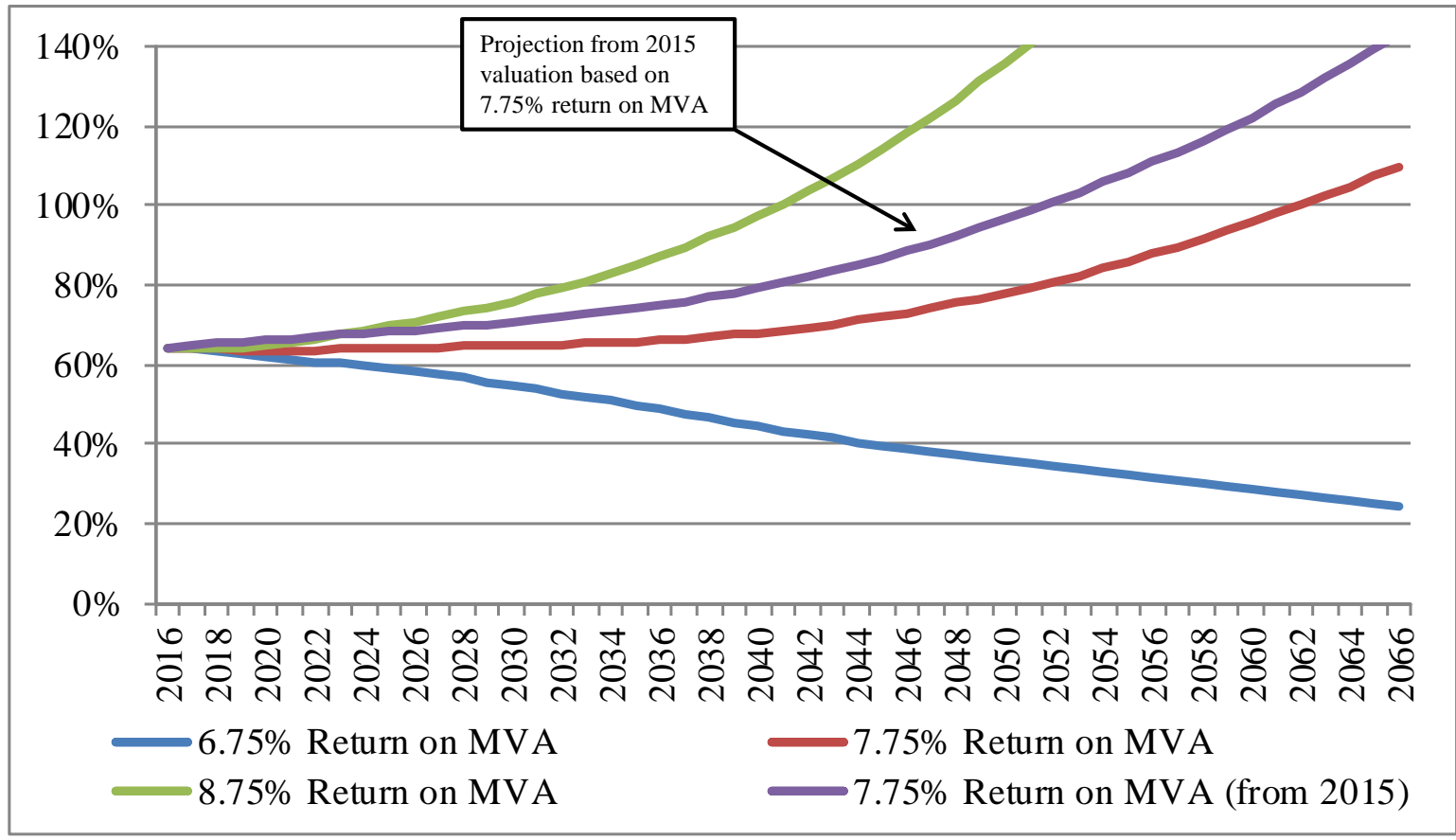
# Funding Valuation Results

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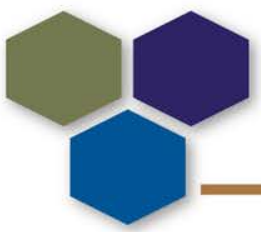
- ◆ Funding period is 45.0 years
- ◆ Funding Policy Contribution is 17.32%
  - ▶ 26-year amortization (30 years from 2012), plus employer normal cost
  - ▶ Shortfall (17.32% - 13.90%) of 3.42%
- ◆ These metrics do not incorporate certain improvements going forward
  - ▶ Lower normal cost for future members
  - ▶ Future COLAs less than 2%



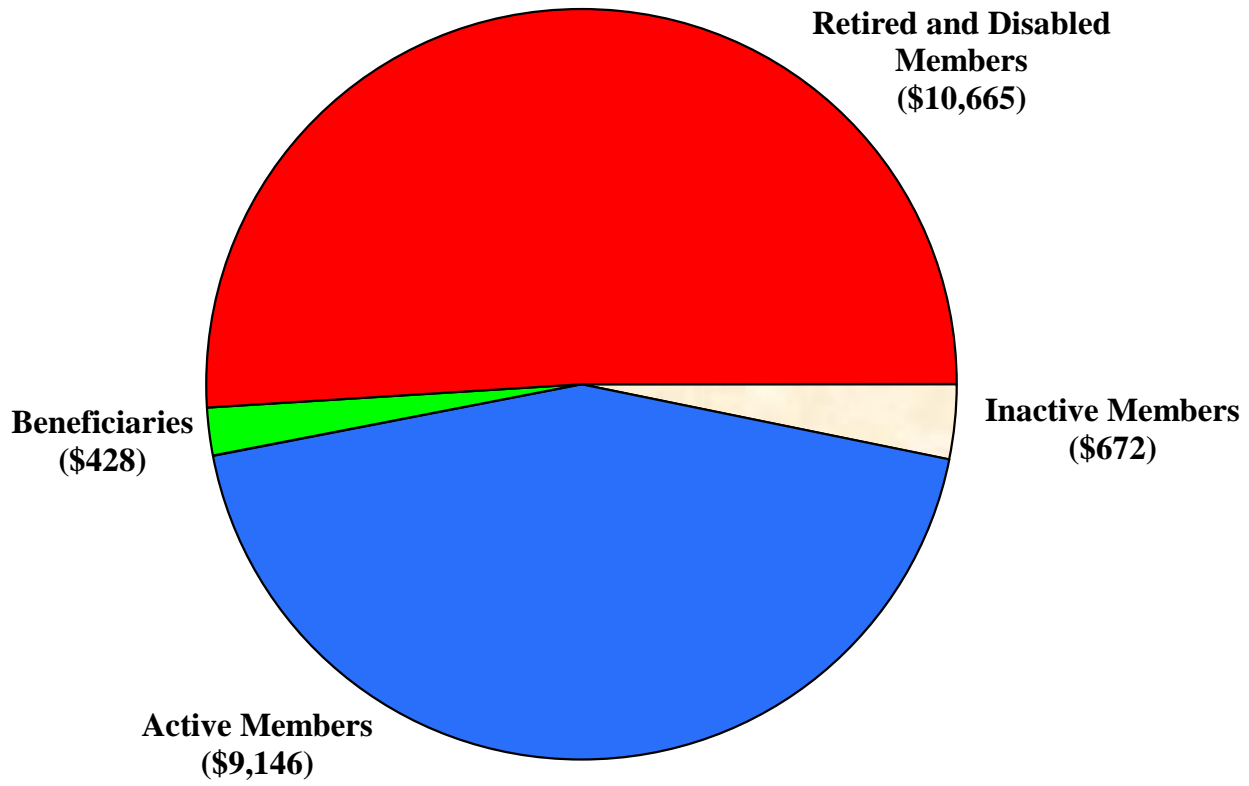
# Projection – Funded Ratios



*Projection results assuming 7.75% return market value, 0.00% annual membership growth, current assumptions and plan provisions, and variable COLAs based on future funded ratios*

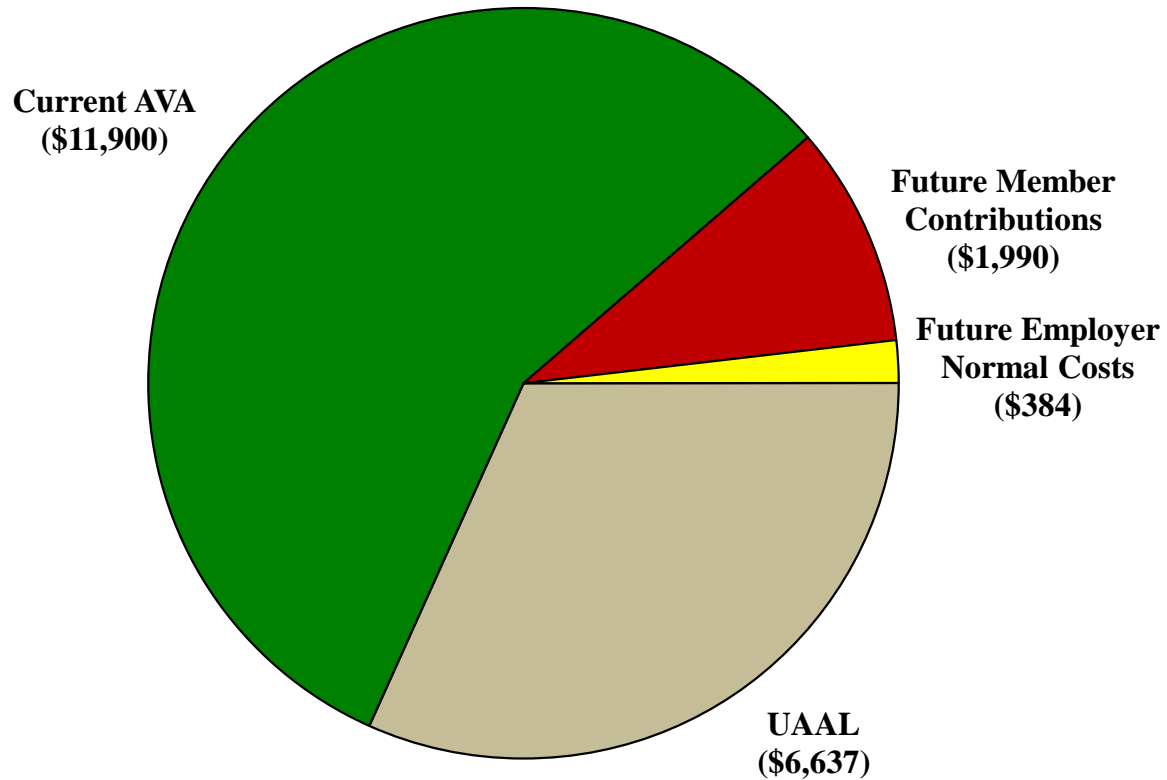


# Where the Present Value of Future Benefits (\$20,911 Million) Will Go





# How Present Value of Future Benefits (\$20,911 Million) Will Be Funded



ERB's Board places significant emphasis on actuarial matters:

- Annual valuation report- statutes require every other year
- Experience study every two years, best practice is every five years
- Actuarial audit every five years, consistent with best practices

## Actions the ERB Board has taken based on actuarial reports

- 2010 experience study- reduced long-term earnings assumption from 8% to 7.75%
- Pursued long-term sustainability legislation- SB 150 in 2013 legislative session
- 2014 experience study- adopted new generational mortality assumptions, eliminated growth in active members for projections (no effect on valuations)

## ERB and Board's philosophy:

- Conservative, yet realistic
- Consistent, not reactive

## Putting actuarial valuations in context:

- Status as of a point in time
- Most important is trend over time



## Informs everything we do:

- 7.75% investment performance target
- No plan changes unless actuarially neutral or beneficial

ERB website locations for additional information on various topics:

Actuarial - [http://nmerb.org/Actuarial\\_reports.html](http://nmerb.org/Actuarial_reports.html)

Accounting and finance - [http://nmerb.org/Annual\\_reports.html](http://nmerb.org/Annual_reports.html)

Investments –

○ Performance - <http://nmerb.org/Investments.html>

○ Asset allocation - [http://nmerb.org/asset\\_allocation.html](http://nmerb.org/asset_allocation.html)

○ Investment Policies - [http://nmerb.org/investment\\_policies.html](http://nmerb.org/investment_policies.html)

